CMHC
Canada Mortgage and Housing Corporation

SCHL
Société canadienne d'hypothèques et de logement

The Toronto Renovators: The Structure of the Industry and the Operation of Its Firms

Research Report

June 1983

Canada

Canada Mortgage and Housing Corporation, the Federal Government's housing agency, is responsible for administering the National Housing Act.

This legislation is designed to aid in the improvement of housing and living conditions in Canada. As a result, the Corporation has interests in all aspects of housing and urban growth and development.

Under Part V of this Act, the Government of Canada provides funds to CMHC to conduct research into the social, economic and technical aspects of housing and related fields, and to undertake the publishing and distribution of the results of this research. CMHC therefore has a statutory responsibility to make widely available, information which may be useful in the improvement of housing and living conditions.

This publication is one of the many items of information published by CMHC with the assistance of federal funds.

The Toronto Renovators: The Structure of the Industry and the Operation of its Firms

Prepared for
the Program Evaluation Division
Policy Development and Research Sector
Canada Mortgage and Housing Corporation
by

Donald M. Caskie
Consultant
Socio-Economic Policy
Mount Pleasant, Ontario

CMHC Project Manager: Katharine Kemp

This study was conducted by Donald Caskie for Canada Mortgage and Housing Corporation under Part V of the National Housing Act. The analysis, interpretations, and recommendations are those of the consultants and do not necessarily reflect the views of Canada Mortgage and Housing Corporation or those divisions of the Corporation that assisted in the study and its publication.

TABLE OF CONTENTS

Page

Abstract

Executive Summary

Foreword i-ii

Introduction

The Background of the Study 1
The Objectives of the Survey 4
Methodology 5
The Structure of the Report 6

First Section
A Profile of Renovation Firms and Their Work
Part A: The Firm and Its Operation

The Hisotry of Renovation Firms and the Structure of the Industry Chapter I
When Renovation Firms Started I-1
The Start-Up Financing of Renovation Firsm I-7
The Occupational Background of the Owners of Renovation Firms I-8
The Growth Pattern of the Renovation Firms I-9
The Size Distribution of Firms I-10
The Ownership of the Firm I-12
The Liability Structure of the Firm I-13
The Type of Role Played by the Firm I-14
The Major Problems Faced by Firms Entering The Renovation Industry I-15
Summary I-17

The Operation of the Renovating Firms Chapter II
Identifying the Overall Work Strategy of Renovation Firms II-1
The Financing of the Firm II-9
Corporate Planning II-11
The Firm and the Industry II-14
The Major Problems Faced by Renovation Firms in the Operation of Their Businesses II-16
Summary II-19

Part B: The Firm on the Job

Getting the Job Chapter III
Marketing III-2
Specification Writing and the Preparation of Plans III-5
Estimating, Bidding and Pricing III-5
Consumer Relations III-7
The Major Problems Encountered by Renovation Contractors in Getting Jobs III-11
Summary III-13

TABLE OF CONTENTS

Page

Running and Completing the Job — Chapter IV

The Financing of the Job IV-1
Scheduling IV-3
Personnel IV-4
Acquisition of Materials IV-13
Quality Control IV-15
Productivity IV-16
Renovator-Customer Relations IV-16
Government-Renovator Relations IV-19
Problems Encountered by Renovators in Running the Job IV-34
Problems Encountered by Renovators in Completing the Job IV-35
Summary IV-36

Second Section
An Overview of the State of the Industry — Chapter V

Profile the Industry V-2
Renovators' Problems/Concerns and Proposed Remedies V-5
Capability and Strategies V-8
Renovator-Government Relations V-11
Employment Generation V-13
Renovator-Consumer Relations V-16
Summary V-18

Conclusion

Appendix "A"

Appendix "B"

ABSTRACT

The results of interviews conducted late in 1982 and early 1983 with 38 renovation firms in Metropolitan Toronto provide the basis for this analysis of the structure of the renovation industry and of the operation of general contracting and speculative renovating firms.

The renovation industry in Toronto is still young and fragmented but it is developing and becoming better organized and gaining in experience as its member firms become more established.

The first section of the study presents a profile of the firms and their work. This includes a history of the firms, an overview of their place in the industry, a description of their normal business activities (e.g., financing, planning, marketing) and a presentation of how the firms normally obtain and run jobs. The second section addresses several objectives of the survey; namely, (1) to profile the industry to get a better understanding of it, (2) to identify the problems faced by the firms and list their proposed solutions, (3) to determine the ability of the industry to respond to the forecasted demand, (4) to identify the effects of government policies, programs and regulations on the industry, (5) to determine the employment generation produced by renovation, and (6) to develop a better understanding of renovator-consumer relations.

EXECUTIVE SUMMARY

Since the mid-1970's, the renovation industry has grown and developed into a distinct part of the construction scene in Toronto. Many of the firms in the industry are young and are still acquiring experience. The industry is slowly organizing itself and defining its role in the broader construction industry in Toronto and in the rest of Canada.

The survey of 38 renovation firms in Toronto, upon which this study is based, revealed how the industry is structured and how the firms carry on their businesses. These firms varied in size with their gross sales ranging from under $50,000 to over a million dollars per year. Most of the firms are incorporated as partnerships or sole ownerships. The number of permanent employees in the majority of firms is small (under 5) with most personnel being supplied through sub-contracting. The renovators in the survey were mainly general contractors and speculative renovators although the ranks of the latter have been thinned due to the recent recession in the economy.

Most renovators have developed a plan and strategy for the operation of their firms. Because of the instability in demand and the problems encountered in amassing financial reserves from cash flow, the planning horizons are generally short-term. Nevertheless, each renovator has identified the firm's capabilities and tried to match them with his own business aspirations and with the realities of the market to determine where and when the firm should work, what number and size of projects should be done, what sector of the industry should be sought out, and what types of construction should be done. The key determinants in making these choices are the ability of the firm to supervise the projects and the anticipated rate of return.

The firms in the industry rely heavily on cash flow to finance their operations and limited capital acquisitions. Lines of credit and equity are also important sources. Most firms arrange for some form of progress payments to finance operations on projects.

Word of mouth referrals are the most common means of acquiring new work. In addition to its importance in marketing,this is also a strong inducement for renovators to control quality and on-the-job performance.

Customer relations is a key element in the success of renovation firms. It is essential that good relations are developed and maintained, especially in residential renovation, where the renovators are so closely tied with the day-to-day home life of the customer. A large part of this function is educating the consumer about the process and cost of renovation as most renovators consider that the majority of their customers are not knowledgeable about renovation.

To do the renovation, the firm must bring together the tradesmen and the building materials in the correct proportions and at the right time. Some firms have reported shortages of qualified renovation tradesmen, particularly among carpenters, bricklayers, and plasterers. Almost all firms reported adequate availability of building materials. All firms reported that they took steps to promote productivity and quality control.

The renovation industry is extremely flexible and can adapt to changes in the levels and types of demand very quickly. It is easy to enter into and exist from the industry due to the low levels of capitalization, fixed overhead and regulations required of firms in the industry. There is considerable similarity in the skills required for the various types of building construction. The major limiting factors would be the inputs of personnel materials and financing.

The renovators reported that the firms in the industry are beset by some problems. At an industry-wide level there are the problems of (a) general slow demand for their services, (b) impediments to growth created by government policies, programs and regulations, and (c) a general lack of understanding by the public and government about the industry itself and the renovation process, and (d) a poor image for the industry created by the "fly-by-night" firms and by the absence until recently of an organized voice representing the industry. At the firm level, the most serious problems are those of financial management, consumer relations, scheduling, personnel, and marketing.

Some of the most frequently mentioned remedies to these problems proposed by the firms surveyed include:

At the industry level

a) - government should improve the general economic climate and lower and stabilize the interest rates;

b) - government should treat renovation on par with new construction with regard to policy and programs;
   - government should revise and streamline its programs and regulations (especially zoning and building codes) to facilitate rather than hinder the renovators' activities;

c) - renovators should further develop their own association to represent the interests of the industry to government and the public and to stimulate communication amongst firms in the industry;
   - government should enter into discussions with the industry on a regular basis on issues of common concern;
   - the industry, government and consumers' associations should develop educational materials to help consumers better understand the renovation process and the preferred ways of choosing reliable renovators;

d) - the industry should become more professional and should develop standards of technical competence and ethics to counter the negative image it currently has; changes in government licencing provisions may be needed to police these standards.

At the firm level

Training and educational programs for renovators and tradesmen should improve the performance of most firms and allow them to substitute to some extent acquired knowledge for on-the-job experience in their learning process. However, as the firms and the industry mature and get more experience, these problems should become less severe.

The survey of firms in Toronto revealed that the renovators want to develop responsible, long-lasting, and profitable firms which will respond well to the variety of demands for renovations made by their customers. They see the emergence of an industry which is becoming more sophisticated and responsible as it matures and becomes better organized and more clearly defined in its structure and functions.

FOREWORD

This report on the operation of residential renovation contracting firms was prepared under contract with the National Headquarters of Canada Mortgage and Housing Corporation. It is based on a survey of renovators who are members of the Toronto Homebuilders' Association Renovators Council (THBARC). The survey was conducted in late 1982 and early 1983.

The author wishes to thank all who contributed to the conduct of this survey.

a) At the design stage of the survey, the following commented on ways to improve the methodology and design of the survey and on the issues to be addressed therein:

- Canada Mortgage and Housing Corporation
    - Toronto Branch (D. Hughes, B. Lea)
    - Ontario Region (M. Lavalalette)

- Ontario Ministry of Municipal Affairs and Housing
    - Housing Renovation and Energy Conservation Unit (P. Cridland, G. Przybylowski)
    - Ontario Home Renewal Program (OHRP) (S. Carr)

- City of Toronto (Renovation loans, administration, building permits) (D. Jennings, M. Quinn, W. Dowling)

- Toronto Home Builders' Association (THBA)
    - Renovators' Council (D. Stupart, J. Carbone)

- Housing and Urban Development Association of Canada (HUDAC), Ontario Region (B. Fefferman)

b) During the conduct of the survey, the following helped by either participating in the survey or by providing resources for its conduct.

i) the members of the Renovators' Council gave unstintedly of their time and their knowledge of the renovation industry and their co-operation is most appreciated.

ii) the Past President (John Carbone) and the President (Terry Mills) of the Renovators' Council provided introductions to their members, valuable advice on the survey, and generous encouragement for the survey about its importance as a means of developing a better understanding about the renovation industry.

iii) Barbara Lea and her staff at the Toronto Branch of the CMHC are to be thanked for their warmhearted assistance and for the provision of office space and telephone facilities.

iv) Colin Westhall and the staff of the Toronto Homebuilders' Association helped in handling some of the logistics of the survey.

And finally, the author expresses his appreciation for the advice and encouragement given by Katharine Kemp of National Headquarters of CMHC who served as project officer for this study.

INTRODUCTION

The Background of the Study

For several years the Canada Mortgage and Housing Corporation (CMHC) has been involved in the field of housing renovation. CMHC has recognized the need to maintain the housing stock and to adapt this stock to current needs and demands. In particular, CMHC has endeavoured to support renovation through programs such as the Residential Rehabilitation Assistance Program (RRAP) and the Canadian Home Renovation Plan (CHRP).

The importance of the renovation industry has been recognized in recent years. An increase in demand for the renovation of the housing stock has been projected for the future.[1] The presence of a healthy and well-ordered industry is crucial to this development. CMHC has tried to gain an understanding of this indstry in terms of its structure and operation, but this has been a very difficult task to accomplish. Until very recently there has not been an association to speak specifically for the renovation industry. There have been significant hurdles to overcome in order to do survey research on the industry. Data on the number and names of firms in the industry are not collected and to make such a compilation, a necessity for scientific sampling, would be extremely time-consuming and costly.

CMHC has done pilot surveys on a limited scale in the Ottawa area. Problems were encountered in locating the contractors and getting them to participate in a survey.[2] In these studies, contractors were located by sampling from the Yellow Pages of the telephone directory, lists of building permits issued, personal contacts, and lists of firms observed in the process of renovation.

---

[1] The value of construction initiated in 1981 as identified through building permits issued in Metropolitan Toronto was approximately \$2.9 billion. (Statistics Canada, Building Permits Annual Summary, 1981, Table 10). In the City of Toronto, the value of building permits for renovations rose from \$163.2 million (or 36% of total construction) in 1981, to \$237.2 million (or 47% of total construction) in 1982. (City of Toronto Annual Report of Building Department for 1981 and 1982). Since building permits are not obtained for all renovations, these figures under represent the true value of renovation put in place.

[2] John Clark, A Pilot Investigation of Characteristics of Renovation/ Rehabilitation Contractors, CMHC, Ottawa, 1980 and An Examintion of the Characteristics of Rehabilitation Countractors Pilot Study for Ottawa, CMHC, Ottawa 1981.

An attempt to develop an approach at a national survey of renovators was made in 1982 by this author on behalf of CMHC.[1] At that time, a telephone survey was conducted on the feasibility of doing studies in the cities of Halifax, Toronto, Edmonton and Vancouver, centres which have experienced some renovation activity and which have potential for more. The following questions were asked of those contacted in each city:

"(1) How many firms are doing renovation work in each city? What are the distributions by level of activity (i.e.; number of firms having more than half of their sales in renovations and number of firms having less than half their sales in renovations)? What are the distributions between general and trade contractors?

(2) What types of organization prevail in renovation construction (i.e.; (a) owner-contractor-trades; (b) owner/own contractor-trades; (d) developer-designer-contractor-trades); (d) owner-project manager-(designer, contractor, trades); (e) other)?

(3) What are the best indicators to use in determining size distributions of renovation firms (i.e. sales, assets, number of employees, value of work put in place)? How many firms are in the small, medium, and large-size categories?

(4) What are the best methods of compiling a list of firms engaged in residential construction?

(5) What are the current developments in each city which might be influential in providing a basis for the conduct of a survey of renovation contractors?

(6) What is the current level of renovation activity in each city?"

Given the substantial cost in time and money required to conduct such surveys and the relative weakness of the information base about this industry, this report recommended that, prior to undertaking a nationwide survey, a pilot study be conducted in Toronto using the membership of the Toronto Home Builders' Association Renovators Council (THBARC) as the total survey population. This membership seemed reasonably representative of the industry in Toronto in that:small, medium and large-size firms (measured in sales volume)

---

1. Donald M. Caskie An Exploration of the Feasibility of Conducting Survey Research on the Residential Renovation Contracting Industry in the Cities of Halifax, Toronto, Edmonton and Vancouver, CMHC, Ottawa, 1982. pp.III-1 to III-2.

are present, the firms do various types of renovations, ranging from those specializing in minor repairs to those engaged in major renovations, and the firms have various forms of structure and organization (e.g., sole ownership, partnership, incorporated, unincorporated). With the support and encouragement of the executive of the THBARC, it was expected that the response rate would be high (as subsequently proved to be the case). In addition, the THBARC could serve as a resource centre and advisory board when the questionnaire was being designed and when questions might arise about the interpretation of the responses to the survey.

The feasibility of this approach was subsequently ascertained and a questionnaire was designed.[1] During this phase, the organization and individuals cited in the Foreword were consulted.

The survey itself was then conducted. It began in late 1982 with the revision of the questionnaire and the mail out of a letter of introduction by the THBARC President to the members; the conduct of the interviews continued into early 1983. The results of this survey are valid for the renovation industry of Metropolitan Toronto and immediate environs.[2] The structure and operation of the renovation industry may be identical or similar in other parts of Canada, but this cannot be deduced directly from this survey. Such larger patterns might be extracted by comparing the results of this survey with those of the above mentioned pilot study on Ottawa contractors, and those of the survey currently under way on RRAP contractors in Montreal.

1. Donald M. Caskie, The Design of the Survey "The Operation of Residential Renovation Conracting Firms"; Pilot Study, Toronto, 1982-83, CMHC, Ottawa, 1982

2. In early 1983, THBARC undertook to develop a list of renovators in Metropolitan Toronto using the Yellow Pages of the telephone directory as the source of information. They estimated that approximately 250 of the 800 contractors listed were renovators. Using the Yellow Pages listed firms as a base, the number of interviewed in the survey (e.i., 38) represents 15% of these 250 firms. However, this is probably a lower estimate of the total number of firms doing renovation since not all such firms are listed in the Yellow Pages.

The Objectives of the Survey

There were several objectives to the survey. As set forth in the introduction to the written portion of the survey, the major objectives of the survey were:

- to develop a profile of the industry to provide decisionmakers with a better general understanding of the industry and its concerns;
- to specify the problems/concerns facing the industry, establish what the effects of these problems are and ascertain the solutions being proposed by renovators;
- to determine the ability of the industry to meet the demands forecasted for residential renovation and identify possible strategies for meeting such demand;
- to identify the effects of current government policies, programs and regulations on the operation of renovation firms and find out what role renovators think government should play;
- to learn more about the employment generation capability of renovation activity; and
- to develop a better knowledge of renovator/consumer relations.

In addition, there were many sub-objectives which were designed to shed light on specific issues or concerns (e.g., learning about warranties offered by renovators on work performed or the entry patterns of firms into the renovation industry).

The objectives were developed in consultation with the organizations and individuals mentioned in the Forword. The objectives of the survey were designed to provide data on matters of current and future concern to these organizations.

METHODOLOGY

The survey was conducted using the renovators who were members of the THBARC as the representative population for Toronto. The respondents were asked to complete a questionnaire requesting statistical information on the operation of the firm (see Appendix A) and to participate in an interview about the history and operation of the firm (see Appendix B).

The written questionnaire was mailed out with a covering letter from John Carbone, then President of the THBARC, who introduced the interviewer/author and asked the members to participate in the survey. After allowing approximately two weeks for the receipt of the written questionnaire, all the renovators of the THBARC were telephoned and interviews were arranged where possible. Several telephone calls were needed in some instances. Unfortunately, not all of the renovators received these questionnaires (for instance, some had changed addresses) and some delays were introduced thereby. The written questionnaires were supposed to be picked up at the time of the interview, but for those who didn't receive theirs in the mail, it was necessary to leave another questionnaire with them and have them mail the completed forms to the interviewer.

The response rate for the interviews was quite high at 78% of those firms which were listed in the membership roles of the THBARC at the start of the survey. However, some of these members were no longer active in the renovation industry; if these are not included, then the response rate increases to 86%. The detailed breakdown of the interview responses was as follows:

Number of firms interviewed =	38 or	78%
Number of firms not interviewed = of which:	11 or	22%
Number which were considered to be no longer renovators =	5 or	10%
Number which could not be reached but which were considered to be still renovators =	2 or	4%
Number which could not be reached and whose status in the industry was not determined =	1 or	2%
Number of firms which refused to be interviewed =	3 or	6%
Total Number of Renovating Firms Listed as members of THBARC	49 or	100%

The interviews were conducted with the owner(s) or senior manager of each firm. All the interviews, were conducted in person with the exception of one which was done over the telephone.

The response rate for the completion of the written questionnaires was not as high. Of the 38 firms interviewed, 14 or 37% of them completed the questionnaire. The reasons given for not completing it included their cost in time and money to complete it, their reluctance to publicly reveal the information (even though each firm's information was considered to be confidential), or the short history of the firm which precluded providing meaningful annual data. However, much of the information requested on the first page of the written questionnaire was obtained at the time of the interview in verbal form. No follow-up was conducted to obtain a higher response rate on the written questionnaires.

Although the renovators were often difficult to reach by telephone, there was usually little difficulty in making the arrangements for the interview, providing a sufficient amount of flexibility was allowed in scheduling. The fact that the interviews were being conducted in the industry's traditionally slow season for sales contributed to the good rate of response since the renovators could spare the time to talk.

The results of the survey were tabulated manually and are presented in the subsequent chapters of this report.

The Structure of the Report

The report is divided into two main sections. The first section presents the results of the questionnaires and the interviews to produce a description of renovation contracting industry in the Toronto area as typified by the members of the THBARC. This section looks at (a) the firm and its operations and explores such topics as the history of the firm, its growth pattern, its structure, and its normal activities including financing and planning and (b) the firm on the jobsite where the various aspects of getting, running and completing the job are outlined.

The second section uses the results obtained in the first section to provide explanations or answers for the six major objectives cited earlier in this introduction.

FIRST SECTION

A PROFILE OF RENOVATION FIRMS AND THEIR WORK

PART A: THE FIRM AND ITS OPERATION

THE HISTORY OF RENOVATION FIRMS AND THE STRUCTURE OF THE INDUSTRY CHAPTER I

The renovation contracting industry has been in business in Toronto for many years, but it has only been in the past few years that renovators have risen to prominence in the construction industry relative to the constructors of new structures. The revival of interest in living in the downtown led to a demand for renovated houses and businesses which was answered by speculative renovators and developers as well as renovators acting at the behest of owners of buildings in need of rejuvenation or modification. Homeowners also were choosing to renovate their dwellings rather than move to different neighbourhoods. With the housing stock aging, the need for repairs and alterations was becoming obvious both to the established construction industry and to those others eager to enter the field of renovation, many of whom presumed it to be a highly profitable industry requiring little capital and few qualifications.

The firms included in the survey have a varied background as to why and when they started in the renovation industry.

When Renovation Firms Started

Over half of the firms surveyed have been in business five years or less (See Table I-1). This is coincidental with the heightened interest in renovation, both speculative and contractual, which developed in the latter half of the decade of the 1970's. Almost half of the firms have been in business two to five years. A large proportion of firms of gross sales of $100,001 to $250,000 entered at this time, whereas very few firms in the next largest size group did so. Firms which entered the industry eleven years or more ago tend to be in the two largest size-groups. Despite the slowdown in construction activity in 1981 and 1982, firms still entered the industry; 8% of those surveyed had entered in the past year.

TABLE I-1*

The Age Structure of Renovation Firms, according to the Size of the Firm (as measured by Gross Sales in 1981)

Size of Firm	Number of Years Firm has been in Operation						
	1 year or less	2-6 years	6-10 years	11 Years or more	Unknown	Total	
						No.	%
$25,000 and under]							
$25,001-$50,000]		2		1		3	8
$50,001-$100,000		1		1		2	5
$100,001-$250,000		5	2			7	18
$250,001-$500,000	1	1	2	1		5	13
$500,001-$1,000,000		4	3	4		11	29
$1,000,001 and over		4	1	2		7	18
Size unknown	2	1				3	8
Total N	3	18	8	9	0	38	xxx
%	8	47	21	24	0	xx	100%

---

* unless otherwise specified, the source of all tables in this report is the interview or written questionnaires administered as part of the survey.

The data shows that it is possible to grow very rapidly or slowly in the business. Some firms that have entered in the past five years have achieved large gross sales,whereas,others have tended to remain small to medium-sized. Much depends on the skills of the entrepreneur and the condition of the market. However, much also rests on the wishes of the owner as to what type and size of company is preferred and how it accords with the perception of the life-style desired.

Table I-2 shows the history of the firms in terms of the time they became incorporated. The vast majority of firms eventually have become incorporated. For several firms, the pattern was to start out as unincorporated businesses and to become incorporated as they grew in experience and in assurance that the business would survive. The firms currently unincorporated are all under five years of age. Firms that have been heavily involved in speculative renovation have tended to enter the industry as incorporated firms.

A large majority of the firms surveyed have become renovators in the past five years. (See Table I-3. Of the firms classified as being primarily renovators, almost two-thirds entered the industry at this time. Almost three-fifths of all firms have become engaged in renovation to some degree in this time period.

This latter observation reveals the importance of the firms capability in adjusting to the market conditions. Some firms do both renovation and new construction. Other firms, the majority, have chosen to specialize in renovation.

However, most firms exhibited considerable flexibility in shifting emphasis to go where the demand was. The most serious objections to these alterations came from renovators who emphasized renovations as part of their life-style.

TABLE 1-2

The Number of Years Renovation Firms have been Incorporated, According to the Size of the Firm (as measured by Gross Sales in 1981)

Size of Firm	Number of Years Firm has been Incorporated								
	1 Year or less	2-5 years	6-10 years	11 Years or more	Sub-total	Unknown	Not Incorporated	Total No.	Total %
$25,000 and under]									
$25,001-$50,000]	1				1		2	3	8
$50,001-$100,000		1			1		1	2	5
$100,001-$250,000	1	5	1		7			7	18
$250,001-$500,000	1	3	1		5			5	13
$500,001-$1,000,000		5	3	2	10		1	11	29
$1,000,001 and over		4	1	2	7			7	18
Unknown	1	1		1	3			3	8
Total N	4	19	6	5	34	0	4	38	xx
%	11	50	16	13	89	0	11	xx	100%

TABLE I-3

The Number of Years Firms have been Engaged Primarily in Renovation

Number of Years	Activity				
	Primarily as Renovator	Renovation/New Construction	Unknown	Total No.	Total %
1 year or less	3			3	8
2-5 years	18	4		22	58
6-10 years	6	1		7	18
11 years or more	5	1		6	16
Unknown				0	0
Total N	32	6		38	xx
%	84	16		xx	100%

Economics and life-style figure prominently as reasons why the renovators surveyed started their businesses. (See Table I-4). The most frequently cited reason for entry was the expectation that good profits could be achieved in this industry. Ease of entry into the industry was the second most frequently referred to reason. This applied to entrepreneurs who were entering from construction backgrounds and who did not have the capital to enter the new construction industry and also to those entering from other fields with small amounts of capital and considerable desire. The importance of life-style considerations figure prominently in the considerable number of respondents who referred to their interest in the type of work and the attraction of being their own boss through owning a firm. Several respondents made reference to their satisfaction in being able to create and manage projects and also to work on them with their own hands.

The expectations which entrepreneurs have for themselves and their businesses have had significant impact on the type of company that evolved in terms of such factors as size of firm; type, number and size of projects undertaken; scheduling, etc. This will be discussed later in the report.

TABLE I-4

The Main Reasons for Starting Renovation Firm

Main Reasons Cited*	Number	% of all Firms
Good potential for profits	25	66
Ease of entry	18	47
Liked type of work	17	45
Like to have own business	14	37
Grew up in the construction industry and naturally continued family tradition	4	11
Others	5	13
Total	38	100%

*Firms may cite more than one reason, with maximum of five responses per firm.

The Start-Up Financing of Renovation Firms

The cost of starting a renovation firm is relatively small compared with the costs for other types of business requiring inventory, plant and machinery, office space, permanent personnel, etc. This ease of entry, indeed,is a significant reason for these entrepreneurs' entry into the industry. It is possible to start a business using the home as an office and recruiting personnel only for each commissioned project. Equipment can be minimal and a vehicle, such as a pick-up truck, can be leased or purchased at relatively low cost.

The use of equity and cash flow were the most frequently mentioned sources for financing the start of the firm. (See Table I-5). Equity was most frequently cited as the source of funding for capital, while cash flow figured very significantly as the basis for operating the firm. In the latter case, the income from the preceding project often serves as the funding source for the current projects. With the heavy reliance on cash flow for financing and the relative scarcity of equity and other types of financial reserves, newly created firms do not have much of a cushion if they do not receive payments on schedule or if a job goes "sour". It is very easy in such circumstances for new firms, as well as for more experienced firms, to find themselves financially overextended.

TABLE I-5

The Ways Renovation Firms Financed the Start of their Businesses

Method of Financing*	Firms Responding	
	No.	% of all Firms
Capital Account		
Cash flow	3	8
Equity	14	37
Operating Account		
Cash flow	34	89
Equity	18	47
Loans	2	5
Line of credit from bank	8	21

*More than one method can be cited by each firm.

The Occupational Background of the Owners of Renovation Firms

The backgrounds of the owners who responded to the survey were varied and diverse. The image or myth of renovators being only tradesmen who want to go into business for thmselves was certainly laid to rest. To be sure, several of the respondents are tradesmen who have gone this route. Also, there are sons who have followed in their parents footsteps and have started out on their own, bringing with them the knowledge and experience and connections with the trades and suppliers gained from the family business. Yet, a significant proportion of these entrepreneurs came from other backgrounds. Some have been trained in architecture, engineering, management, finance or marketing and have worked in some cases in industries remote from construction. Several of the firms which are partnerships combine the skills of persons knowledgeable about construction with those skilled in management, marketing, finance or design. Sole proprietorships, to be successful, usually have persons with either management or construction skills or both, and who are prepared to correct any deficiencies as they go along. Several of the renovators, particularly those involved in the industry as speculative renovators, were introduced to renovation and gained some of their experience through the renovation of their own home(s).

The backgrounds of the renovators surveyed reveals that there is no standard prescribed way of entering this industry. Some of those who have entered have probably been better prepared, on paper at least, than others, but it is not until the jobs are running and the firm is fully operational that the validity of these qualifications and the on-the-job experience is tested. Several of those interviewed, especially those who have recently started in business, acknowledged their lack of knowledge on the technical and/or management side of the operation of the firm. These firms planned to grow at a gradual pace, commensurate with their developing capability, and to take on only those jobs which are within the boundaries of their financial and technical competence.

The Growth Pattern of the Renovations Firms

The majority of firms said that their growth in sales had been negatively influenced since 1981 by the general slowdown in the economy, particularly in construction. Up until then, many firms reported that their sales had been growing considerably on a year-to-year basis and in a few cases, up to the 20%-30% range. This is not to say, of course, that all firms did not suffer setbacks over the years. Still, in general, the pattern was one of growth for the firms. The slowdown in demand since 1981 has caused some firms a decrease in their rate of growth of sales or a decline in absolute terms. However, other firms, because of particular market conditions and their orientation have managed to weather this storm reasonably well.

Changes in demand patterns also resulted from the economic slowdown. There were shifts out of the speculative market. Some speculators became general contractors or design builders. New home builders became renovators. Renovators broadened their scope and became custom builders of new homes and other types of buildings.

The slowdown in the demand also had considerable impact on the growth pattern of the personnel employed by these firms. With a reduction in business, many firms temporarily reduced their personnel. Others rethought their personnel strategy and decided to eliminate some or all of their own employees as a way to reduce overhead and to rely permanently on sub-contracting to staff their jobs.

The Size Distribution of Firms

Of the firms which responded to the survey, there is a heavy representation of larger size firms. (See Table I-6). Almost half of the firms had gross sales in 1981 of $500,001 or more. Of the remaining firms, 31% had gross sales of $100,001 to $500,000 with the remaining 13% having sales under $100,000.

TABLE I-6

The Size Distribution of Renovation Firms (as measured by Gross Sales in 1981)

Gross Sales Volume	Renovation Firms	
	Number	%
$25,000 and under	1	3
$25,001-$50,000	2	5
$50,001-$100,000	2	5
$100,001-$250,000	7	18
$250,001-$500,000	5	13
$500,001-$1,000,000	11	29
$1,000,001 and over	7	18
Unknown	3	8
Total	38	100%

The distribution would probably be different if size categories using 1982 gross sales were used. The figures for 1981 include a fair number of firms which were involved as speculative renovators. This year was generally good for gross sales for most renovators, especially speculators, providing they judged the market correctly and foresaw the downturn coming. By 1982, with the speculative market depressed, the speculators of 1981 had switched to becoming general contractors, design builders, or dormant speculators. Sales were down for many. It is estimated that there would be more firms in 1982 in the middle-size groups ($100,001-$500,000 in gross sales) than before.

The firms listed in the "unknown" category are ones which were started just recently and did not have any sales in 1981.

The size of firms can also be measured by the number of permanent personnel on the firm's staff. (See Table I-7). almost three-quarters of the firms had 1-5 staff members, including the owners themselves, in 1981. These firms with 5 employees or less extended through all size categories of firms as measured by gross sales. Firms with 6-19 persons on staff tended to be in the medium and large sized firms as determined by gross sales. As discussed earlier, the slowdown in the industry in 1982 caused many firms to rethink their personnel policies with a large number opting for a reduction of permanent personnel and a greater reliance on the use of sub-contracting. The permanent employees of this group of firms tend to be supervisors, some tradesmen (e.g., carpenters and labourers), and office staff and, in a minority of cases (approximately 5), salespersons.

TABLE I-7

The Size Distribution of Renovation Firms as measured by the Number of Permanent Personnel (1981)

Number of Permanent Personnel*	Renovation Firms	
	Number	%
1-5 persons	27	71
6-10 persons	4	11
11-19 persons	4	11
20 or more persons	0	0
Unknown	3	8
Total	38	100%

* includes the owner.

The Ownership of the Firm

The ownership of renovation firms is in the hands of sole proprietorships and of partnerships with 55% of the firms of the former type and 45% of the latter type. (See Table I-8). Sole proprietorships are distributed through all size categories, with over half in those under $500,000. Partnerships, however, are mainly of firms with gross sales over $500,001. Several partnerships expressed the opinion that the presence of two owners in the firm provided a highly valuable division of labour skills and knowledge permitting them to engage in a higher sales volume that they would as sole proprietors. Sole proprietors, on the other hand, remarked that they could make decisions quickly and with less argument, providing they had good supervisory and support staff.

TABLE I-8

The Ownership Structure of Renovation Firms by Size of Firm (as measured by Gross Sales in 1981)

	Ownership Structure					
Size of Firm	Sole	Partnership	Multi-owner	Unknown	Total No.	Total %
$50,000 and under	2	1			3	8
$50,001-$100,000	2				2	5
$100,001-$250,000	6	1			7	18
$250,001-$500,000	2	3			5	13
$500,001-$1,000,000	5	6			11	29
$1,000,001 and over	3	4			7	18
Unknown	1	2			3	8
Total N	21	17			38	xxx
%	55	45			xx	100%

As to the nationality of the ownership of the firms, it is believed that all are Canadian-owned (at least 51% Canadian ownership per firm). All of the firms completing the written questionnaire (14 in number) claimed to have majority Canadian ownership.

The Liability Structure of the Firm

The large majority of firms are incorporated and are privately owned. (See Table I-9). With the exception of one firm with sales in the range of $250,001-$500,000, all the firms which are not incorporated are in the two smallest size categories.

TABLE I-9

The Liability Structure of Renovation Firms, by Size of Firm (as measured by Gross Sales in 1981)

Size of Firm	Liability Structure						Total	
	Incorporated				Unincorporated	Unknown		
	Private	Public	Unknown	Total			No.	%
$25,000 and under]								
$25,001-$50,000]	1			1	2		3	8
$50,001-$100,000	1			1	1		2	5
$100,001-$250,000	7			7			7	18
$250,001-$500,000	4			4	1		5	13
$500,001-$1,000,000	11			11			11	29
$1,000,001 and over	7			7			7	18
Unknown	3			3			3	8
Total N	34			34	4		38	xxx
%	89			89	11		xx	100%

The Type of Role Played by the Firm

The primary roles of firms in 1981 were as general contractors and as speculative renovators/developers.[1] (See Table 1-10). The secondary roles included design builders and trade contractors in addition to general contractors and spec renovators. The renovators are fairly flexible in their ability to shift among these various types of roles in response to changing market conditions. The recent exodus out of the field of spec renovating is a good example of how quickly this transformation can occur.

TABLE I-10

The Type(s) of Role Played by Renovation Firms in 1981*

	Degree of Involvement	
Type of Role	Primary	Secondary
Developer/Spec /Renovator	4	2
Design Builder		2
Project Manager		
General Contractor**	8	1
Trade Contractor**		1
Other		
Total N	12	6

* The classifications for 1982 would be different in that the number of firms whose primary involvement in the Developer/Spec Renovator category would be considerably reduced due to the poor market for speculation in Toronto in 1982. There would be an increase in the number of firms opting particularly for General Contractor and also the remaining categories as their primary area of involvement.

** May include new construction as well as renovations.

[1] This section is based on information gathered from the questionnaire completed by the renovators themselves. Unfortunately, the number of responses was low (12 in total). However, the results are fairly representative of the rest of the firms in the survey.

According to the comparison of type of role by size of firm, it was shown that small, medium and large firms engaged in activities as spec renovators and as general contractors. (See Table I-11).

TABLE I-11

The Major Role Played by Renovation Firms According to the Size of the Firm (as measured by Gross Sales in 1981)

Size of Firm	Type of Role						
	Developer /Spec Renovator	Design Builder	Project Manager	General Contractor	Trade Contractor	Total No.	Total %
$25,000 and under	1					1	8
$25,001-$50,000				2		2	17
$50,001-$100,000				1		1	8
$100,001-$250,000	1			1		2	17
$250,001-$500,000				2		2	17
$500,001-$1,000,000							
$1,000,001 and over	2			2		4	33
Unknown							
Total N	4			8		12	xxx
%	33			67		xx	100%

The Major Problems Faced by Firms Entering the Renovation Industry

As mentioned earlier, the ease of entry into the industry was an important factor leading to the formation of renovation firms. This is borne out by the fact that over two-fifths of the firms surveyed said they had few significant problems in starting their businesses. (See Table I-12). However, not all firms entered so easily and trouble-free. Some of the most frequently mentioned types of problems included finding out about the operation of the industry,* developing a "track record".

---

*There are no textbooks about the operation, structure and organization of the renovation industry in Toronto.

reputation for the firm, finding out who the good and reasonable subcontractors and tradesmen are, and learning "the do's and don'ts" about estimating and bidding.

TABLE I-12

The Major Problems Encountered by Renovation Firms when they Entered the Industry

Major Problems Cited*	Firms Reporting	
	N	% of all Firms
Few problems, easy to enter	16	42
Finding out about how the industry operates	14	37
Developing "track record"	13	34
Finding out which sub-contractors & workforce to use	7	18
Learning about estimating & bidding	7	18
Cash flow and financing	6	16
Dealing with customers	4	11
Developing approaches for different market conditions	4	11
Developing management skills	3	8
Establishing accounts with suppliers	2	5
Finding work	2	5
Getting paid	2	5

* Listed in order of frequency cited; firms may cite more than one problem (maximum 3 per firm)

The availability of good published materials or textbooks or other sources of information on these and the other types of problems encountered would have done much to reduce the severity of these problems. As it was, the entrepreneurs had to learn by observing the practices of established firms, by talking with other renovators (at renovators' association meetings, for instance) and by the trial and error method which can be very costly, often painful, but usually very instructive. Most respondents thought that the latter method was a good way to learn even though it could be very expensive.

Summary

The renovation industry in Toronto as presently known has developed since the mid to late 1970's. This is when the majority of firms in the survey were formed. They entered the industry for economic and lifestyle reasons, with the entrepreneurs themselves being drawn from a wide range of educationsl and occupational backgrounds. The firms relied heavily on their own equity and on cash flow to finance their entry into the industry. The firms were largely privately owned incorporated sole proprietorships and partnerships. While spec renovators figured prominently in the industry in the 1970's, the downturn in the economy and the construction industry caused a restructuring of the industry with general contracting becoming a significant activity of the renovators surveyed. All size groups of firms were represented in the survey, however, there was a larger representation of large and medium sized firms (as determined by gross sales) than small firms. Most of the problems encountered by firms at the time of their start-up were largely ones which could be overcome with more knowledge and experience.

In the course of their regular day-to-day operations, renovation firms are involved in several activities and functions. They determine the overall strategy of where the firm will work and what sector of the market they will attempt to secure for themselves; they arrange for financing of the firm and its overhead; they engage in planning of the future operations of the firm; and they identify how they will relate to other firms in the industry and to other organizations and interest groups.

Identifying the Overall Work Strategy of Renovation Firms

The renovators who responded to the survey have each developed a fairly clear strategy as to the market they want to reach with their services. They have identified the type of construction they want to undertake, the location where they want to work, the size of projects on which they wish to work, the number of projects they will do at one time, and the time they want to work.

All of the firms which responded engaged in residential renovation. (See Table II-1a). As well,over half (55%) were involved in doing some non-residential renovation. This was mainly commercial, but there was also some industrial and institutional being done. Several other firms expressed an interest in doing non-residential renovation and were planning to bid on some projects, particularly small commercial renovations. However, some firms lamented the difficulty in entering the commercial renovation field where there is heavy competition and where bids are pared down so much that overhead is barely covered. There was also considerable interest in doing new construction; approximately a third of the firms had been involved in new construction to some extent. The vast majority of firms, however, identified renovation as their main market.

TABLE II-1a

The Type of Construction Work Done by the Firm According to the Size of the Firm (as measured by Gross Sales in 1981)

Size of Firm	Type of Construction *					
	Renovation				New	
	Residential	Non-Residential	Total**			
			N	% +	N	% +
$25,000 and under						
$25,001-$50,000	3	1	3	8		
$50,001-$100,000	2	2	2	5		
$100,001-$250,000	7	5	7	18	4	11
$250,001-$500,000	5	2	5	13	2	5
$500,001-$1,000,000	11	5	11	29	2	5
$1,000,001 and over	7	5	7	18	4	11
Unknown	3	1	3	8	1	3
Total N	38	21	38		13	34
% of all firms	100	55		100	34	100

* Firms may do more than one type of constructions (i.e., both renovation and new and both residential and non-residential renovation).

** Firms doing renovation regardless of type.

+ As percentage of all firms (38)

This strong orientation towards renovation is revealed very clearly in an analysis of the work done in 1981 and 1982 by twelve firms. (See Table II-1b). In both these years, renovation accounted for 97-99% of their work in terms of units completed. Of the total number of units worked on just over 85% were residential renovations. Additions and improvements comprised the bulk of the residential renovation. These patterns were found to prevail in all size groups of firms for which there was data.

TABLE II-1b

The Number and Percentage Distribution of Units Completed by Renovation Contractors in the 1981 and 1982 (until 31 October) Calendar Years by Type of Unit

Type of Unit *	Units Completed			
	1981		1982	
	N	%	N	%
Renovation				
repairs	13	7	15	5
maintenance	4	2	9	3
additions	46	24	132	44
improvements	85	45	95	15
conversions	4	2	2	1
deconversions	1	1	1	1
reclamations	1	1		
Sub-total	164**	86	264	87
Non-Residential Building				
repairs	2	1	8	3
maintenance	2	1	6	2
additions	1	1	5	2
improvements	16	8	14	5
conversions			3	1
deconversions				
reversals				
Sub-total	21	11	36	12
Other types of construction				
Sub-total Renovations	185	97	300	99
New Construction				
Residential Building	2	1	2	1
Non-Residential Building				
Other types of Construction				
Sub-total New Construction	5(*)	3	2	1
Total	190	100	302	100

Number of firms = 12

* For definitions of these terms, see Appendix A.
** Includes 10 units unspecified by type.
(*) Includes 3 units unspecified by type.

The renovation firms have identified where, geographically speaking, they do and don't want to concentrate their activities. With the exception of one firm, all the firms considered the Metropolitan Toronto area and the surrounding municipalities as their market. Some firms have undertaken jobs outside of this radius of Toronto, but usually this work was done for friends or relatives or there was no other work available. With the exception perhaps for working on large, long-running projects with high profit margins, all firms preferred to stay close to Toronto. While some firms considered all of Metro Toronto and environs their market, others were much more selective, choosing to work only in the east or west or north end of Toronto and still others were even more specific concentrating on areas such as Rosedale, Forest Hill or Riverdale.

The renovators gave several reasons for limiting the size of their market. They want to reduce the cost and the time lost in travelling to and from the job-site and allocate this time and budget to site supervision or office work. They want to be able to maintain their contacts with tradesmen, sub-contractors and suppliers in their chosen areas; in other areas they would have to develop a new network of contacts. They want to keep in touch with the consumers in their market area for marketing purposes. They want to minimize the cost and time and maximize the efficiency involved in honouring the warranties given to their customers.

Of course, economic conditions or changes in current and future demand patterns for renovation may force renovators to move to other geographical areas. To make such a move requires time and money to develop an understanding of the new market as well as outlays of money and time to make contacts and do marketing. For most firms, the profit margins are low. This type of relocation could be a serious drain on their financial resources.

The renovators have looked at the capability of their firms and have determined what size of projects they can and should do. (See Table II-2a). Some firms did all sizes of renovation whereas others specialized, for instance, in small projects or large projects. Firms doing only small projects tended to want to do the jobs quickly and also get paid quickly to maintain a good cash flow.

Firms concentrating on large projects claimed they were easier to supervise. However, the profit margins claimed by firms for each of the sizes of projects varied considerably; for example, some firms said the medium-sized projects produced bigger returns whereas other firms asserted the opposite. The personal prefernces of the owners and the differences in management style seemed to play a considerable role in the choice of projects.

A greater percentage of firms worked on small projects (74%) than on large ones (63%). This is not surprising since firms that are capable of doing large projects can do small ones, if they choose to do so, but firms working on small projects do not necessarily have the capability to work on larger projects. This is shown in the table where a much larger proportion of large firms than small firms worked on large projects; for instance, all of the firms with sales under $500,000 did so. Several firms said they liked to be able to have a mix of sizes of projects so they can use their time effectively; for instance, they liked to have a large project for the sake of continuity and some small ones which could be done when there were slowdowns or delays or excess capacity on the large one.

TABLE II-2a

The Scale of Operations (as measured by the size of projects undertaken simultaneously) of Renovation Firms According to the Size of the Firms (as measured by Gross Sales in 1981)

Size of Firm	Size of Projects*					
	Small		Medium		Large	
	N	%	N	%	N	%
$25,000 and under						
$25,001-$50,000	2	5	1	3	1	3
$50,001-$100,000	2	5	2	5		
$100,001-$250,000	7	18	5	13	4	11
$250,001-$500,000	4	11	3	8	3	8
$500,001-$1,000,000	9	24	10	26	9	24
$1,000,001 and over	1	3	3	8	7	18
Unknown	3	8	3	8		
Total N	28	100	27	100	24	100
% of all firms	74		71		63	

* Firms may work on more than one size of project:
Small = $10,000 or less
Medium = $10,001-$50,000
Large = $50,001 and over

Renovation firms tend to do a relatively small number of projects at one time. (See Table II-2b). Approximately 40% of the firms surveyed worked on three or less projects at one time, while 29% worked on from 4-6 projects and 26% did seven or more projects. In this last category were included some firms doing more than 20 projects at once. These distributions are based on firms being engaged on these projects on a full-time basis. The number of projects on the go may increase if the firm is finishing or starting other projects at this time.

TABLE II-2b

The Scale of Operations (as measured by the average number of projects undertaken simultaneously) According to the Size of the Firm (as measured by Gross Sales in 1981)

Size of Firm	Number of Projects*					
					Total	
	Small	Medium	Large	Unknown	N	%
$25,000 and under]						
$25,001-$50,000]	1	1	1		3	8
$50,001-$100,000	1	1			2	5
$100,001-$250,000	5	1	1		7	18
$250,001-$500,000	3	1	1		5	13
$500,001-$1,000,000	3	3	4	1	11	29
$1,000,001 and over		3	3	1	7	18
Unknown	2	1			3	8
Total N	15	11	10	2	38	xxx
%	39	29	26	5	xx	100%

* Small = 1-3 projects
Medium = 4-5 projects
Large = 7 or more projects

Some of the main determinants of this choice are the capability of the firm to supervise the projects, the strategy of the firm in terms of size vs volume of projects, and the ability of the firm to attract business.

Many renovators stated that they would only undertake projects which they could personally supervise. This immediately limits the number of projects done considerably. Some renovators deplored the lack of good on-site supervisors and said that they might be willing to expand the number of projects they do if such supervisors were available. A much larger proportion of large-size firms than small-size firms undertake 7 or more projects simultaneously. Seven of the ten firms doing 7 projects or more have sales of $500,001 or more.

The firms have looked at the size of the projects undertaken and how many projects can be done at one time to determine which is the best blend for them. For instance some firms have chosen to do a large number of small-sized jobs, whereas others have decided to do a small number of medium-sized jobs. The firms must look at which mix is best able to achieve the desired results in terms of profitability, utilization of the firm's personnel and abilities, and the preferences of the owners.

Several renovators said they would like to be doing more projects than they had been doing, but they were not well enough established in the industry to attract the consumers to purchase their services. On the other hand, other renovators said that they turned down projects because they were afraid of becoming incapable of supervising the work properly and producing the quality of service expected of them. Most of the firms interviewed expressed concern about the dangers of becoming overextended and sacrificing quality for quantity; the long-term consequences of this could be a severe loss of reputation, especially as word-of-mouth is such an important means of acquiring work.

The expectations of firms about their potential capability is shown in Table II-2c. From this table, it would appear that most firms have been performing close to their potential, although some would clearly like to do more projects.

TABLE II-2c

The Potential Scale of Operations (as measured by the number of projects the firm can undertake given current type or organization) of Renovation Firms According to the Size of the Firm (as measured by Gross Sales in 1981)

Size of Firm	Number of Projects (Simultaneous)							Total	
	1	2	3	4	5	6 or More	Unknown	N	%
$25,000 and under									
$25,001-$50,000			1		1	1		3	8
$50,001-$100,000			1		1			2	5
$100,001-$250,000		1	3	1		2		7	18
$250,001-$500,000		1	1	1		2		5	13
$500,001-$1,000,000		3			1	6	1	11	29
$1,000,001 and over					1	5	1	7	18
Unknown		1	1		1			3	8
Total N		6	7	2	5	16	2	38	xx
%		16	18	5	13	42	5	xx	100

All of the firms surveyed were operating as renovation firms on a full-time basis throughout the year.

For a large majority of the owners of the firms surveyed, their renovation firm was their sole business interest. For the remainder, the renovation business was a major focus of their business careers. Many of these had businesses in allied fields to renovation such as woodworking, furniture making, real estate, and property management.

The Financing of the Firm

For the vast majority of firms in the renovation industry, the main focus of attention about financing is on the operating side. (See Table II-3). Although even here, this is an industry with a relatively low overhead for most firms, since so many use their own homes of offices and have comparatively few permanent staff.

It is an industry which relies heavily on cash flow for financing the operation of its firms. Nine of ten firms use cash flow for this purpose. Lines of credit with banks, suppliers and trades are used by 40% of the firms, while 26% use equity for operational purposes. Equity is used mainly for setting-up particular activities not normally financable out of cash flow, such as a major marketing campaign or the setting up of an office outside of the home. Equity is also used as source of financing for the start-up of new jobs when no provision for advance payments or progress draws are included in the contract of the project.

Cash flow is relied on heavily by all sizes of firms. However, of the firms using equity and lines of credit, over half had gross sales of $500,001 or more.

On the capital side, most firms have relatively small amounts invested. Most firms have only purchased the minimal pieces of machinery and equipment. Equity is the major source of capital financing, being used by 29% of the firms; cash flow and loans are also sources. A large proportion of the capital requirements come from the large size firms. Seven of the eleven firms using equity and four out of six firms using loans had gross sales of more than $500,001.

TABLE II-3

The Arrangements Made to Finance the Operation of Renovation Firms According to the size of the Firm (as measured by Gross Sales in 1981)

(a) Capital

Size of Firm	Method of Financing*			
	Cash Flow	Equity	Loans	Other
$25,000 and under]				
$25,001-$50,000]			1	
$50,001-$100,000		1		
$100,001-$250,000	2			
$250,001-$500,000	1	1	1	
$500,001-$1,000,000	3	2	1	
$1,000,001 and over	2	5	3	2
Unknown		2		
Total N	8	11	6	2
% of all firms	21	29	16	5

(b) Operating

Size of Firm	Method of Financing*				
	Cash Flow	Equity	Line of Credit**	Loans	Other
$25,000 and under]					
$25,001-$50,000]	3	1	2		
$50,001-$100,000	2				
$100,001-$250,000	6	2	2		
$250,001-$500,000	5		2		
$500,001-$1,000,000	10	4	5		
$1,000,001 and over	6	1	4		1
Unknown	2	2			
Total N	34	10	15		1
% of all firms	90	26	40		3

* Firms may each cite more than one type of financing used.
** From bank, suppliers, or trades.

Corporate Planning

Most of the renovators surveyed do some degree of corporate planning and many would like to be able to do more. (See Table II-4). All of the major functional areas (i.e., marketing, financial, personnel, organizational, and work activity) are covered by most firms.

TABLE II-4

The Corporate Planning Activities of Renovation Firms According to the Size of the firm (as measured by Gross Sales in 1981)

Size of Firm	Firms Doing Corporate Planning							
				Areas Covered				
	Number	Col.%	% Per Size Category	Marketing	Financial	Personnel	Organizational	Work Activity
$25,000 and under] $25,001-$50,000]	3	8	100	2	3	1	1	3
$50,001-$100,000	2	5	100	1	2	2	2	2
$100,001-$250,000	7	18	100	7	7	7	7	7
$250,001-$500,000	5	13	100	5	5	5	5	5
$500,001-$1,000,000	10	26	91	10	10	10	10	10
$1,000,001 and over	7	18	100	6	7	7	7	7
Unknown	2	5	67	2	2	2	2	2
Total of columns	36	95	95	35	36	34	34	36
Total all firms	38	100	100	38	38	38	38	38
Col. totals as % of all firms	95			92	95	89	89	95

The firms differed as to the definitions they used for the term "corporate planning". For some it meant a detailed outline and forecast of the firm's expected future development on a more or less detailed basis based upon historical trends and projections of their expectation of future demand. These firms were trying to plan the way firms in other industries would do. However, other renovators would outline the type of firm they thought they would like to have and tried to work towards or maintain that goal; in some cases, the market conditions would cause them to make adjustments to their plan while in other cases they would not.

In terms of the functional areas of planning, the most common approaches were:

a) marketing - select correct strategy depending on time of year, product line and image desired;

b) financial - keep good cash flow, stable rate of return, and low overhead;

c) personnel - keep core of supervisory personnel if possible, but use sub-contractors more;

d) organizational - keep structure flexible and simple and speed-up decision making process; and

e) work activity - define market more precisely (e.g., high volume of small jobs or specialize in small volume of large jobs).

Because of the instability of the demand in this industry on a seasonal and cyclical basis, it is not surprising the most firms have a short planning horizon. Of the firms sureveyed, 89% planned one year or less into the future, 18% looked ahead from one to three years, and 13% made plans for four years or more ahead. The firms which planned for the short-term (one year or less) did so from project to project, or from month to month, or from quarter to quarter, in that order of frequency of response. At least two of the firms which planned in the long- term (4 years or more) said they were not really trying to place a time framework around their plans since they saw planning as an identification of the goals of the firm and its guidelines rather than as a detailed blueprint for everyday activities.

In all cases, the planning was done by the owners or by the owners in consultation with senior management.

The firms placed a fairly high priority on the importance of planning with 19 firms claiming is was moderately important and 17 firms saying it was of great significance. Most firms (87% of those who responded) said they conducted some type of review of their planning to guage performance and to determine the degree of success achieved by the plans. The review process could be as simple as occasionally asking oneself whether the company was doing as well as it should. Or, it could be as complex as a formally scheduled analysis of the firm's development by key personnel based on financial statements and computerized printouts of project performance.

Most firms would prefer to have more stability of demand in the industry so that they could be planning on a longer term basis using more sophisticated analytical methods. However, that is not now the case and most firms are concerned with looking at each project as it comes and trying to make sure the firm is capable of doing the job and that the job is consistent in type to that considered most desirable for the development of the firm and the firm's image. Each firm tends to take its own approach to corporate planning; there isn't any formula for planning which is universally applied by all firms. While renovators could probably benefit from the introduction of special training or educational programs to improve their techniques of planning, it is still the renovator himself who has to make the decisions about the firm's direction by relying on his knowledge, experience and intuition.

The Firm and the Industry

As discussed earlier, the renovation industry in Toronto as in the rest of Canada is still in a developmental phase. It is populated by a still undetermined number of firms of various sizes, specialties and capabilities. A clear definition of "renovator" has yet to be developed. An organized voice for the industry in the person of the Renovators' Council of the Toronto Homebuilders' Association has appeared only recently (in 1980). This association of renovators represents only a small minority of renovation firms in Toronto, although it has attracted much attention in Toronto and beyond and has presented the case for renovation and renovators to government and the public.

The Council and its members have played and probably will continue to play an important role in determining the way the renovation industry in Toronto evolves and the environment in which it will operate.

The respondents to the survey were asked how they wanted the industry to develop and what their association should do to foster this development.(See Table II-5). Almost all of them wanted the association to speak on behalf of the industry to governments at all levels and to inform government about the operation needs and wishes of the industry and when possible to try to influence the attitudes and actions taken by government towards the industry. Many of the firms feel that the industry has not been consulted in the past about government initiatives affecting the industry. This neglect, they feel, should be replaced by consultation and understanding.

Great concern was expressed by the renovators surveyed as to the standards adhered to by firms in the industry. They were displeased that the industry had such bad image in the eyes of the public. They disliked losing jobs to firms they suspected of acting unfairly or incompetently. To this end, over four-fifths of the respondents said the association should set ethical and performance standards for the industry. In a similar vein, there was support for providing information and education of the public and promoting professionalism in the industry. Some firms thought the association should also enforce the standards amongst its members. As will be discussed later, there was strong support for improving the municipal governments' licencing provisions, again to improve the standard in the industry. However, the respondents hoped that the industry could develop its own standards without having to rely on government to do this for them and thereby, possibly introduce needless and unwanted regulation.

The renovators thought that the association was a good vehicle to provide information and education to the renovators and offered them a valuable forum for conducting discussions about the industry.

TABLE II-5

The Roles Expected by Renovation Contractors of an Association Representing the Industry

Roles	Frequency Cited by Firms *	
	Number	% (38=100%)
Lobby/liaison with government	37	98
Set ethical & performance standards for the industry	31	82
Inform & educate public about the industry	29	76
Inform renovators	19	50
Promote professionalism of the firms in the industry	18	47
Educate renovators	14	37
Provide forum for renovators to discuss the industry	12	32
Enforce standards amongst members	12	32
Recommend firms to the public	6	16
Establish warranty program	2	5
Develop plan for liability insurance and consumer protection bond for members	1	3

* Firms may mention more than one role for the association, with a maximum of seven responses per firm.

The renovators wanted to see the industry evolve as much as possible along lines developed by the renovators themselves with a minimum of outside involvement, particularly from government. If there was to be intervention by government, it should be based on a bilateral or multilateral consensus.

The Major Problems Faced by Renovation Firms in the Operation of Their Businesses

The three problems referred to most frequently by the firms were instability in the demand for their services, cash-flow and financing and customer relations. (See Table II-6).

TABLE II-6

The Major Problems Encountered by Renovation Firms in the Operation of Their Businesses

Major Problems*	Firms Reporting	
	N	% of All Firms
Maintaining an adequate flow of work through the year	16	42
Cash flow and financing	11	29
Customer relations	10	26
Personal (own employees and/or contractors)	8	21
Unfair competition from incompetent or unscrupulous firms	7	18
Estimating and bidding	6	16
Developing marketing strategy	5	13
Controlling rate and direction of firm's growth	4	11
Dealing with government bureaucracy and "needless" regulations	4	11
Developing/maintaining "track record"/reputation of firm	4	11
No significant problems	3	8
Ensuring quality of workmanship	2	5
Time management	2	5
Others	4	11

* Listed in order of frequency cited; firms may cite more than one problem (maximum 3 per firm)

The problem of instability in their work load throughout the year is related to general economic conditions and to seasonality. In 1982, these two factors combined to make for a poor business year for many renovators. While the downturn and trough of the economic cycle negatively affected renovators, most said they were more seriously hurt by the cycles related to seasonality. The usual cycle, especially for residential renovation, is for activity to be high in the spring (March-June) and autumn (September-mid-December) and slow in July-August and from mid-December to early March. Most customers don't want to start renovation in the slow season because of holiday activity, alternative uses for their money (e.g., Christmas presents) and, in the case of the winter, the perception that it is unwise or impossible to renovate at this time of year.

Most firms find it difficult to get new work during the slow times. Even though they know beforehand about these seasonal cycles, they still find it hard to handle financially and personnel-wise. If at all possible, they try to get jobs that last long enough to carry through the slow seasons, especially during the summer. During the winter, many in the industry, especially tradesmen, consider it a time to rest or, if they can afford it, to go on vacation. Several firms expressed interest in entering the speculative market as a way of overcoming seasonal instability. They intended to buy a property in need of renovation, do the renovation work during the slow periods and either sell or rent the renovated property.

The renovation firms would like to be able to persuade their customers to alter their buying habits regarding renovation, but to date, they have not been successful. They particularly want to convince them that it is technically possible to renovate in the winter. There are problems in laying foundations and doing masonry work in the cold of winter, but this can be done in the autumn if the job is properly planned. For most other jobs, the use of tarpaulins and heaters make exterior work quite feasible. Interior work can be done as well in winter as any other time.

The issue of cash flow management and financing is a serious one for the industry. Interruptions in the flow of cash can create serious problems for the renovation firms and can lead to bankruptcy.

Interruptions in cash flow created by weak demand from season to season, failure of customers to pay, a lien, or a major mistake on a job which has to be repaired by the renovator at his own expense could plunge the business into a crisis. As shown earlier in the chapter, most of the firms depend on a cash flow to stay in business and they do not have much access to alternative sources of financing. Most do not have large reserves upon which to draw to bail them out. The problem could be fatal to the firm if it is already overextended or it is incompetent in its financial management. The renovation industry is easy to enter, but it is also easy to leave. Unfortunately, for the sake of the industry and the consumer, it is easy to leave with a heavy debt load unpaid and work not completed.

Another major area of concern for renovators is consumer relations. Many renovators feel they have to do too much for their customers. This includes educating them about renovation,adapting the original plans to include changes and extras desired by the customer, putting up with the frustration of customers who think they know more than the professional renovators, and trying to collect from customers, some of whom have no intention of paying on time if at all. While not all customers are considered to cause unnecessary problems, most renovators feel that there are enough such customers to make the job of the renovator frustrating and sometimes unpleasant.

The above mentioned problems as well as the other problems raised, (e.g., bureaucracy, unfair competition, estimating) can create a tremendous degree of frustration and tension in renovators. Pressed for time and constantly having to make decisions, renovators find that these problems have a tendency to grow in size and intensity.

As the renovators acquire more experience and training (over half of the firms surveyed have been in business five years or less) and as the industry develops, the renovation firms should be able to handle many of these problems more effectively and with less aggravation.

Summary

The renovation firms have each developed an overall strategy for how they will operate. This involves the selection of where they will work in the Toronto areas, when they will work, the types and sizes of projects they will do and the number of projects they will undertake at any given time. The key factor in their choices for the above is their ability to carefully supervise each project they have under way. The financing of the firm on both the capital and operating sides is heavily dependent on cash flow, equity and lines of credit. Most firms are engaged in corporate planning, however due to the instability in demand, the time span is very short. Most firms see the need for the industry to mature rapidly by organizing itself, developing ties with governments and the public and professionalizing the firms in the industry. The problems causing most concern to the firms were the instability in demand, cash flow, customer relations and personnel.

PART B: THE FIRM ON THE JOB

This section of the report presents the results of the survey on how firms operate on the average job. This involves following the job from start to finish; this includes the steps taken to get jobs through the on-site stage to completing the final details of the job prior to moving on to different projects. Such topics as marketing, consumer relations, financing, personnel, production management and government-firm relations are analyzed.

GETTING THE JOB

CHAPTER III

Getting the job has different meanings to the various types of renovators. To general contractors, it means being commissioned by a customer to renovate a house or a business to the customers' specifications, however precise or imprecise those instructions are. To a design builder, it means adding the design phase to the function of the general contractor. To a trade contractor, it means renovating that portion of a structure which requires their expertise (e.g., electrical, plumbing, drywall, etc.) under the more or less precise instructions of the general contractor. To the speculative renovator/developer, it means purchasing a piece of property and proceeding to renovate it for the purpose of resale.

There are differences in how the above types of renovators get jobs. The general contractor, trade contractor and the design builder usually have to compete with other firms by making bids to do the renovation desired by the customer. The bid, once accepted, becomes the basis for determining what renovation will be done on the property. By mutual agreement between the contractor and the customer, modifications can be made to the original specifications. On the other hand, the situation for the speculative renovator is somewhat different. The speculative renovator may have to compete with other potential buyers to purchase the property to be renovated. However, once this purchase has been made, the speculative renovator determines how the property should be renovated, guided only by the dictates of the regulations (i.e., building, zoning and safety) and the market as to its potential for resale at a suitable profit margin.

Getting the job involves the firm in marketing, the preparation of specifications and plans, estimating and bidding, contract writing, and consumer relations.

Marketing

All of the firms surveyed, with the exception of two speculative renovators who said that the issue did not apply to them, did marketing to acquire new work. (See Table III-1). However, the term "marketing" must be carefully defined. If it means the taking of definite steps to promote to prospective the firms capability to do renovations, all firms do market their services. But, if it is interpreted only as doing advertising (e.g., flyers, signs, newspaper advertisements, etc.), then the number would be reduced. For instance, at least five firms stated that they did not do any advertising, yet they made considerable effort to perform high quality work and to please the customers with the intention of creating a demand for their services through the example of their work and through the consequent referrals by their customers to their friends and associates - this is classified here as marketing. Therefore, the definition is a matter of how active and overt the exposure is.

TABLE III-1

The Number of Renovation Contractors which do Marketing to acquire New Work According to the Size of the Firm (as measured by Gross Sales in 1981)

Size of Firm	Firms Doing Marketing		
	Number	Col %	% per Size Category
$25,000 and under			
$25,001-$50,000	3	8	100
$50,001-$100,000	2	5	100
$100,001-$250,000	7	18	100
$250,001-$500,000	5	13	100
$500,001-$1,000,000	11	29	100
$1,000,000 and over	5	13	71
Unknown	3	8	100
Column Total	36	95	95
Total of all firms	38	100	100

* Two speculators said this issue did not apply to them.

By far the most important means of acquiring new work is through word of mouth. (See Table III-2). Almost 90% of the firms surveyed cited this type of marketing. The next most frequently stated types of marketing used were advertisements in newspapers and magazines and flyers.

TABLE III-2

The Main Types of Marketing used by Renovation Contractors

Type of Marketing	Frequency Cited by Firms*	
	Number	% per Type
Word of mouth	34	89
Advertisements in local newspapers and magazines (e.g., TV schedules)	12	32
Flyers	10	26
Referrals by architects/designers	8	21
Signs on building site	8	21
Advertisements (direct mail)	5	13
Referrals by THBA or other professional trade associations	5	13
Referrals by other contractors, tradesmen or suppliers	4	11
Yellow pages	4	11
Brochures	3	8
Signs on firm's vehicles	2	5
Television or radio advertisements	1	3
Other	3	8

* Firms may cite more than one type, with a maximum of four types per firm.

The type of approach used is closely related to the type of work wanted, the volume of work desired and the geographical area being targetted. What will work in one market may not work in another. Word of mouth referrals however work in all markets and for all types of work. With the current high level of scepticism held by much of the consuming public about the ethics and performance capability of renovating firms, many customers rely on the experience that their friends and acquaintances have received satisfactory service from specific renovators to guide them in the choice of their renovator.

The renovating firms surveyed, even those few with salespersons on staff,tend to respond to contacts initiated by customers rather than convincing the customers directly. Marketing accordingly becomes a means whereby the public becomes aware of the firm and its attributes and then contacts the firm directly. Many respondents deplored the direct selling approaches of firms which went from door-to-door soliciting business; the respondents suspected that many of these firms were either "fly-by-nighters" only desirous of "ripping off" gullible homeowners or tradesmen temporarily in the business, working only for the cost of labour and materials, undercutting legitimate renovating firms by not charging a business price (i.e., including overhead and profit).

Specification Writing and the Preparation of Plans

Considerable variations exist from firm to firm and amongst the various kinds and sizes of projects when it comes to the writing of specifications and the preparation of plans. Generally speaking, most firms prefer in principle to work from specifications when preparing estimates and when building anything,but very small projects or repairs.

Some firms strongly insisted that the key to sound competition in the industry and a proper renovation for the consumer were good plans and specifications. The customer should know what he wants done and the renovators should know exactly what they are being asked to include in their bid. Without a common understanding of these basics, each bid can differ in terms of expectations of the project itself, the materials to be used, the time involved, etc.

However, some renovators preferred to work closely with the customer and develop an overall concept and decide from day to day how the project would evolve. For this to work, the customer must have trust in the firm and good rapport with the renovator.

Depending upon the individuals involved and their preferences, the specifications and plans can be prepared before or after the contact is made between the customer and the renovator. If the plans have not already been prepared, the renovator can arrange to have them made or can request that the client make such arrangements separately. Some renovators prepare the plans and specifications themselves.

Estimating, Bidding and Pricing

This subject was regarded by all renovators as crucial for the firm to survive and to make a profit. Knowledge about past and current construction techniques and materials, alertness, carefulness, attention to detail, and a "sixth sense" are all required to prepare good estimates which foresee and take account of the unexpected changes and additions which usually happen while doing a renovation. These difficulties are even more complicated to overcome without good plans and specifications.

Estimating and bidding are especially hard skills to acquire for renovators just entering the business. Even if good training programs and publications were available to educate renovators in this area, it still requires on-th-job experience to master these skills. Unlike new construction, where everything is standardized and easily scheduled, renovations are unique with each structure being different from the next and with each having its own peculiarities developed over time.

The pricing arrangements used by renovators fall into three main categories. (See Table III-3). The set price is an all-inclusive fixed price; almost three-quarters of the renovators regard this as their main approach to pricing. The cost-plus price includes an allowance for direct material and labour and associated costs plus an amount to cover the firms overhead; 16% of the renovators used this approach. The third approach, used by only one firm as its main means of pricing, was to charge only for time and materials. With the latter two methods, some firms claimed they were able to achieve some additional financial returns by being able to acquire materials at less expense than originally stated and keeping the difference for themselves. Firms may use pricing approaches different from their main methods cited above depending upon the preferences of the customer and the type and size of the job.

TABLE III-3

The Main Contractual Pricing Arrangement used by Renovation Contractors According to the Size of the Firm (as measured by Gross Sales in 1981)

Size of Firm	Main Pricing Arrangement Used						
	Set Price	Cost Plus	Labour & Materials	Other	Unknown	Total N	Total %
$25,000 and under]							
$25,001-$50,000]	2		1			3	8
$50,001-$100,000	2					2	5
$100,001-$250,000	5	2				7	18
$250,001-$500,000	4	1				5	13
$500,001-$1,000,000	8	2			1	11	29
$1,000,001 and over	4	1			2*	7	18
Unknown	3					3	8
Total N	28	6	1		3	38	xxx
%	74	16	3		8	xx	100

* Two speculators said this issue was not applicable to them.

Renovators use the method they do because they consider that it is fairer to the customer, it provides a better and safer rate of return, or it reduces the potential for friction between renovators and clients. Depending upon the circumstances, each method of the three referred to above may be suitable.

Consumer Relations

Because of the nature of the work involved and where it is done, it is crucial to the renovator particularly general and trade contractors, to develop a good business relationship with the customer. Renovations disrupt the normal routine of the home or business; there is noise, dust, intrusion into the customers privacy, etc. Unlike builders of new construction, renovators have to work in the home environment of the customer and come into regular contact with the customers. It is easy to see, therefore, that the renovator must take definite steps to maintain the customers confidence in the firm and to involve the customer in the renovation.

This is not easily done. There is a widespread belief held by renovators that most customers are not knowledgeable about the renovation process, about how to select a renovator, or about the cost involved in renovation today. (See Table III-4). The renovator must, therefore, communicate these realities to the customer before a meaningful business relationship can exist. It is much easier when the customer is knowledgeable, but the renovators see few of these.

TABLE III-4

Renovation Contractors Assessment of their Average Client's State of Knowledge about Renovation (process & costs)

Assessment of Client's Knowledge	Firms Reporting	
	N	%
Not knowledgeable	32	84
Lacking knowledge but situation improving	2	5
Knowledgeable	1	3
Unknown *	3	8
Total	38	100

*Includes two firms which said the issue was not relevant to them.

While it is important that customers should be as knowledgeable as possible about renovation and should choose wisely the firm to do the renovation, it is also essential for the renovators to choose for whom they will work. Several renovators stated that they assessed their customers to determine who would be good risks. Before any contracts were signed, the renovators were interested in knowing more about their customers such as whether the customer was likely to pay their bills on time, whether they would be interfering constantly, whether they would be responsible and prompt in making decisions (e.g.,types of fixtures, colours, etc.) crucial to the continuity of the work, and whether they were likely to be constantly argumentative and never satisfied. Some renovators said they refused to work for some prospective clients because they were considered to be poor financial risks or were going to create too many arguments and interruptions.

To facilitate renovator-consumer relations, all the firms surveyed, with the exception of two who were primarily speculative builders and who said this issue did not apply to them, said they took steps to inform their clients about the renovation process. (See Table III-5).

TABLE III-5

The Number of Renovation Contractors Who Take Steps to Inform Their Customers about the Renovation Process, According to the Size of the Firm (as measured by Gross Sales in 1981)

Size of Firm	Firms Reporting		
	N	Col %	% of Size Group
$25,000 and under]			
$25,001-$50,000]	3	8	100
$50,001-$100,000	2	5	100
$100,001-$250,000	7	18	100
$250,001-$500,000	5	13	100
$500,001-$1,000,000	11	29	100
$1,000,001 and over*	5	13*	71
Unknown	3	8	100
Total (all firms)	38	100	

* Two firms said this issue was not applicable to them.

Several approaches were used to provide this information. These included (a) giving a brief educational presentation about the steps involved, the schedule, the costs, and the problems to be expected such as noise, delays, dust, etc.; (b) answering questions posed by the customers; (c) getting the customer to explain what was wanted and providing a commentary about the feasibility of the customer's expectations; (d) discussing in detail with the customer the estimate prepared by the renovator. Most firms have selected their own favourite methods which may be one of the above types or a combination of the above.

In addition, the renovators stated that it was important to keep the customers informed about the progress of the negotiations and the work and to let them know if there were to be delays or alterations (e.g., to obtain a building permit).

An important concern of consumers buying renovations is whether the work will be guaranteed. Sceptical of the renovation industry which has been beset by stories of both "fly by night" renovators "ripping off" homeowners and of the disappearance of firms because of bankruptcy, consumers want to be reassured that the work will be done correctly and well and that repairs will be made if needed.

Of the firms responding to the survey, almost 90% offered their customers guarantees for work performed by them. (See Table III-6). Verbal guarantees were offered by half of the respondents and written ones were made by almost 40% of these firms.

All of those offering verbal warranties and most of those giving written warranties were guaranteeing their work for one year or less. However, two firms gave written warranties of two-to-five years. Those not offering warranties were largely involved in speculative renovation where no guarantee programs are currently established.

In addition to giving warranties on workmanship, the renovators honour the warranties offered by material manufacturers. However, several renovators complained of customers who bought materials which were defective and who expected the renovator to replace them at no installation charge to the customer; the renovators were willing to do so if they themselves had made the purchase.

TABLE III-6

The Guarantees for Workmanship Offered by Renovation Contractors According to the Size of the Firm (as measured by Gross Sales in 1980)

Size of Firm	Guarantees Offered									
	Written		Verbal							
	1 year or less	2 or more years	1 year or less	2 or more years	Sub-total	None	Unknown	N	%	% Offering Guarantee
$25,000 or under]										
$25,001-$50,000]	1		2		3			3	8	100
$50,001-$100,000	1		1		2			2	5	100
$100,001-$250,000	1		6		7			7	18	100
$250,001-$500,000	2	1	2		5			5	13	100
$500,001-$1,000,000	5	1	3		9		2	11	29	82
$1,000,001 and over	2		3		5		2	7	18	71
Unknown	1		2		3			3	8	100
Total N	13	2	19		34		4	38	100	89
% of all firms (38)	34	5	50		89		11			

There are other means which are designed to provide the consumer and also the renoators with protection during the renovation. Some are designed to give financial protection, others are aimed at ensuring the renovators have the technical and business competence to do the renovation. These means include licences, insurance and bonds. (See Table III-7). Slightly more than four-fifths of the firms had liability insurance and almost 80% of the firms had a renovator's licence. Approximately a quarter of the firms had consumer protection bonds. Over a third had a provincial business licence (itinerant seller); however, some of the firms without this licence did not legally need it.

TABLE III-7

Licences, Insurance and Bonds Possessed by Renovation Contractors

Type of licence or Insurance	Firms Reporting	
	N	% of Firms Reporting
Consumer Protection Bond	10	26
Liability Insurance	31	82
Renovator.'s Licence	30	79
Provincial Business Licence	13	34

The Major Problems Encountered by Renovation Contractors in Getting Jobs

The most serious problems encountered were in the areas of bidding, estimating, customer relations and marketing. (See Table III-8). The belief that some firms are unfairly competing with them for business was shared by 42% of the respondents. Customer relations was a problem area for 34% of the firms as was marketing for 27%, and estimating/bidding for 24%.

Some of these problems are structural in nature and must be solved by the industry as a whole. The Problem of "unfair competition" and a poor economic climate falls into this category. The generally low level of knowledge of renovation held by consumers is also an industry-wide problem although it is one which can be counteracted on a one-to-one basis.

Industry-wide education and training programs would do much to alleviate some of the other problems in areas like estimating and marketing.

Some of the other problems are ones that the firms themselves will have to overcome by gaining experience in the industry (e.g., getting a "track record" and choosing clients).

TABLE III-8

Major Problems Encountered by Renovation Contractors in Getting Jobs

Problems	Firms Reporting*	
	N	% of all firms (38)
Unfair competition from incompetent or unscrupulous firms	16	42
Customer relations	13	34
Marketing	11	29
Estimating and bidding	9	24
Choosing a client	4	11
Establishing "track record"/reputation	4	11
Choosing projects suitable for firm's capability	3	8
General economic conditions	3	8
No significant problems	3	8
Scheduling of projects	3	8
Government consumer protection regulations	1	3
Time management	1	3

* Firms may cite more than one problem (up to 3 problems per firm).

Summary

Renovators rely very heavily on word of mouth as their principal means of acquiring new work. Advertising is used by several firms, with flyers and newspaper advertisements being used frequently. Most contractors prefer to work from a set of plans and specifications. The use of good plans provides a basis for good renovator-customer relations. The set price is the most commonly used pricing arrangement. Most renovators said that their customers were not well informed about the process or costs of renovation and that they had to take steps to inform them. A large percentage of firms offered their customers guarantees on their workmanship. Most renovators had liability insurance and many had a renovator's licence.

Renovators are faced with performing several functions in order to run and complete the average job. They must arrange for the financing of the project, they must schedule the flow of materials and personnel and equipment on the job itself as well as co-ordinate the flow and timing of resources from job to job. Arrangements need to be made to control the quality of the work done. Productivity must also be maintained. The renovator must establish a working relationship with the customer. The firm must also deal with the levels of government as their policies, programs and regulations relate to the conduct of the job and the operation of the firm. All of these functions must somehow be combined and the resources marshalled so that the renovation can proceed to produce a completed project.

The Financing of the Job

Almost all renovators finance their projects by relying on cash flow. (See Table IV-1). A very small number of firms use a variation of the traditional cash flow approach in the form of a drawing account.

Almost two-thirds of the firms required some form of advance payment to undertake the job. The amount of the advance ranged from a twentieth to a third of the value of the job. Some renovators asked for an advance on all their jobs, while others only on medium to large-sized jobs. Most of the firms which did not ask for advance payments arranged for progress payments to begin early in the work schedule.

TABLE IV-1

The Financial Arrangements Made by Renovation Contractors with Their Customers to Perform the Job, According to the Size of the Firm (as measured by Gross Sales in 1981)

Size of Firm	Financial Arrangements									
	Advance Payments		Payment Schdules*		Cash Flow		Extras & Changes		Other	
	N	% of Size Group	N	% of Size Group	N	% of Size Group	N	% of Size Group	N	% of Size Group
$25,000 and under]										
$25,001-$50,000]	1	33	2	67	3	100	2	67		
$50,001-$100,000	2	100	2	100	2	100	2	100		
$100,001-$250,000	5	71	7	100	7	100	6	88		
$250,001-$500,000	5	100	5	100	5	100	4	80		
$500,001-$1,000,000	8	73	9	82	10	91	9	82		
$1,000,000 and over	2	29	5	71	6	86	4	57	1	14
Unknown	1	33	2	67	3	100	1	33		
Total of column	24	63	32	84	36	95	28	74	1	3
Total (all firms)	38	100	38	100	38	100	38	100	38	100

* includes progress draws

Almost 85% of the firms used some type of payment schedule to finance the progress of the work. Some of the arrangements include regular weekly or monthly billings, or billings geared to the completion of key phases in the renovation. Some of the contracts, including all of those on architect supervised projects, have provision for holdbacks. They give consumer some financial leverage over contractors and are designated to make sure that the work is completed to the customer's satisfaction.

Approximately three-quarters of the firms make provisions in their contracts for extras or charges. Some of these may be initiated by the renovator when something unforeseen occurs. However most renovators said they try to do all they can to live by the terms of the set price contract and only make changes in exceptional circumstances. More likely, the extras and changes will be intiated by the customers who don't like aspects of the original plan. Renovators said they often had problems with charges for changes and extras when customers would dispute the cost of these modifications to the set-price contract or would try to get the renovator to bury the cost in the original contract.

Most of the respondents said they did not know the source of the financing used by customers, except in the case of some government grants which required the renovator to complete some paperwork.

Scheduling

There are two aspects to the issue of scheduling. The first is the organization of the work on the job-site of the project so that the right kind of trade is matched with the right tools and the right materials at the right stage of the renovation process. If this is done properly, the work should flow smoothly with each stage being completed before the next one starts; accordingly, each of the trades compliments rather than impedes the work of the other trades.

The second aspect is the scheduling of the various projects being undertaken by the firm so that they all proceed smoothly and each receives the proper supervision. When the firm has its own tradesmen on the staff or when the same sub-contractors are being used on several projects of the renovator, it is possible to send personnel where they are needed or where they can be kept fully employed.

Personnel

In the survey, renovators were asked about their personnel policies, the availability of qualified renovation tradesmen, the training of renovation personnel and the relationship between renovators and sub-contractors.

The renovators surveyed said they used several approaches to staff their projects. (See Table IV-2).

TABLE IV-2

Approaches Used by Renovation Contractors to Acquire Personnel (Trades) to Work on Their Jobs, According to the Size of the Firm (as measured by Gross Sales in 1981)

Size of Firm	Approaches Used					
	Contractor does Labour		Permanent Staff of Firm		Use Sub-Contractor	
	N	% of Size Group	N	% of Size Group	N	% of Size Group
$25,000 and under]						
$25,001-$50,000]	2	67	1	33	3	100
$50,001-$100,000	2	100	2	100	2	100
$100,001-$250,000	6	86	6	86	7	100
$250,001-$500,000	5	100	3	60	5	100
$500,001-$1,000,000	6	55	5	45	11	100
$1,000,001 and over	2	29	5	71	7	100
Unknown	1	33	3	100	3	100
Total of column	24	63	25	66	38	100
Total all firms	38	100	38	100	38	100

All of the firms used sub-contractors to some extent on their projects. In some cases, the projects were done using only sub-contractors while in others, only specific aspects required their use (e.g., plumbing, electrical, etc.). With the decline in the economy recently, several contractors said they were making more use of sub-contractors as substitutes for their own tradesmen. Many firms said they used the same sub-contractors for all their projects and became the principal users of those sub-contractors services; the sub-contractors were in fact almost in the employ of the renovator. Other renovators "shopped around" a pool of sub-contractors and choose the ones with the best prices and the best probability of doing a good job.

Two-thirds of the firms said they employed their own personnel on their projects. The personnel used could range from a single clean-up man to a whole construction crew. However, as mentioned in the first chapter, the renovation firms usually have only a small number of personnel on staff. The preferred personnel to keep on staff include on-site supervisors, carpenters (many of whom are with the project from start to finish and who may do some supervision) and labourers (for clean-up, minor repair duties, and moving materials). These personnel, when kept on the firm's payroll, as opposed to being sub-contracted, are continuously available for duty and are experienced in the way the firm operates.

Almost two-thirds of the renovators did some of the work on their own projects in addition to their managerial-supervisory roles. Some of the renovators did the work of a particular trade (e.g., carpentry) or of several trades (e.g., carpentry, drywall installation, masonry, etc.). Many of these renovators had been tradesmen before being business owners, while others picked the skills up as they went along. Other renovators would do other jobs not trades related such as cleaning up the job-site or delivering building materials. Most of the renovators, expecially those working as tradesmen, liked doing this manual work,although some worried about whether their time would be better spent in being businessmen. For many renovators, the income gained or saved by doing these jobs was important to the financial health of the firm and the owner(s). This practice was much more prevalent in the small-medium sized firms than the large ones; for instance,in less than half of the firms with gross sales of more than $500,001 did the owner work on-site.

The majority of firms (58%) consider that the currently available supply of tradesmen is adequate for the present time. (See Table IV-3). However, this was contradicted by approximately 30% of the firms who said there was a shortage. At the other extreme, 13% of the firms claimed there was a surplus.

TABLE IV-3

The Assessment by Renovation Contractors of the Current Availability of Renovation Tradesmen, According to the Size of the Firm (as measured by Gross Sales in 1981)*

Size of Firm	Availability					
	Surplus		Adequate		Shortage	
	N	% of Size Group	N	% of Size Group	N	% of Size Group
$25,000 and under						
$25,001-$50,000	1	33	2	67		
$50,001-$100,000			1	50	1	50
$100,001-$250,000	1	14	4	57	2	29
$250,001-$500,000			3	60	2	40
$500,001-$1,000,000	3	27	5	45	3	27
$1,000,001 and over			4	57	3	43
Unknown			3	100		
Total of column	5	13	22	58	11	29
Total all firms	38	100	38	100	38	100

* Refers to availability of tradesmen who are deemed by the respondent to be qualified (as to skill and behaviour) to work in renovation. Some respondents differentiated between renovation tradesmen and all construction tradesmen while others did not.

The firms that claimed there was a shortage, even in the currently depressed market, stressed that they were looking for tradesmen with skills and behavioural characteristics which are designed specifically for renovation construction. Most were looking for tradesmen with a broad range of skills (along the lines of the European-trained master builders), a strong work ethic, and good behaviour suitable for the work in customers' homes. These renovators claimed that the Canadian educational system normally was not producing such tradesmen and that the stock of tradesmen who had emigrated to Canada from Europe was being depleted through retirement. These renovators predicted even more severe shortages in the future. Several of the renovators who said the current supply is sufficient concurred in this pessimistic prediction. Of course, should the market for renovations quickly increase a number of the firms now claiming adequate supply would join the ranks of those identifying shortages.

One of the main reasons for the differences in the assessment about surpluses and deficits is the definition of the supply. Those claiming a surplus or a balance tend to draw from the total stock of construction tradesmen whereas those asserting there is a deficit draw from a much smaller pool. This latter group would exclude most, if not all, of the tradesmen who have worked on new construction claiming that their narrowly prescribed production-line skills are not the skills needed for custom building, that their decision-making abilities are not well developed, and that their behaviour, which is sometimes marked by disregard for dress, littering, etc., is not suitable for customers' homes. However, those renovators claiming the supply to be adequate or in surplus said that, with careful screening and possibly some additional training, they could utilize new construction tradesmen. For renovators, who were building additions and second storeys, both quite similar to new construction, the use of new construction tradesmen was easiest.

For all renovators, though, there was a fairly high degree of agreement as to the major attributes required of tradesmen in their employment, either on the firm's payroll or on a sub-contract. These included technical skill, effficiency, carefulness, neatness, ability to make decisions and to work on their own, good manners, respect for the customer's property and privacy, punctuality, and congeniality with fellow employees and the supervisor. When hiring their own staff, most renovators looked at the credentials of the applicant, conducted an interview, checking references, and, for those who passed the initial screening, arranged for a trial period on the job. Most renovators said that, by looking at the quality and the condition of the applicant's tools and seeing how they performed in the first few hours, they could tell if the tradesman met their standards. Similar types of approaches were used in screening sub-contractors.

Renovation firms are generally not heavily involved in training their own personnel. (See Table IV-4). Approximately 40% of the firms did some training for their staff. The percentage of training done in firms with gross sales of $250,001-$500,000 and of $100,001-$250,000 was considerably higher than in firms in other size categories. Although there are some notable exceptions, most of these firms do not engage in extensive training programs nor do they involve very many personnel (the majority of firms have only a small number of employees). Some firms expressed an interest and desire in offering training, including apprenticeship programs, to their staff, but, for financial and scheduling reasons, could not.

There are several reasons why renovation firms are not heavily involved in training. Most do not have the financial resources to pay for the time of an instructor and to underwrite the marginal productivity of the trainee. Time is not usually available for supervision. Most renovators fear that the trainee may leave upon receiving the training and the investment will be lost.

TABLE IV-4

The Number of Renovation Contractors Who Train Their Own Staff, According to the Size of the Firm(as measured by Gross Sales in 1981)

Size of Firm	N	%	% of Size Group
$25,000 and under]			
$25,001-$50,000]	1	3	33
$50,001-$100,000			
$100,001-$250,000	4	11	57
$250,001-$500,000	3	8	60
$500,001-$1,000,000	5	13	45
$1,000,001 and over	2	5	29
Unknown			
Total of column	15	39	39
Total all firms	38	100	100

A majority of the renovators claim that the current arrangements for the training or education of renovation personnel is not satisfactory. (See Table IV-5). Over half of the firms think this is the case for the training of tradesmen and over 70% consider this is true for management training. This assessment is most strongly share on the trades side by firms with gross sales of $250,001-$500,000 and of $1,000,001 and over and on the management side by the three smallest size groups and firms with sales of $500,001-$1,000,000.

TABLE IV-5

The Assessment by Renovation Contractors of the Training and Educational Programs Needed by the Industry or the Firm, According to the Size of the Firm (as measured by Gross Sales in 1981)

(a) Trades

Size of Firm	Training or Educational Programs Needed						
	Currently Satisfactory		Not Satisfactory and Should be				Not Known
			Revised	Expanded & Revised	Sub-total		
	N	% of Size Group	N	N	N	% of Size Group	N
$25,000 and under]							
$25,001-$50,000]	1	33		2	2	67	
$50,001-$100,000	1	50		1	1	50	
$100,001-$250,000	3	43		4	4	57	
$250,001-$500,000	1	20	1	3	4	80	
$500,001-$1,000,000	3	27	3	2	5	45	3
$1,000,001 and over	2	29		5	5	71	
Unknown	1	33					2
Total of column	12	32	4	17	21	55	5
Total of all firms	38	100			38		38

b) Management

Size of Firm	Training or Educational Programs Needed						
	Currently Satisfactory		Not Satisfactory and Should be				Not Known
			Revised	Expanded & Revised	Sub-total		
	N	% of Size Group	N	N	N	% of Size Group	N
$25,000 and under]							
$25,001-$50,000]				3	3	100	
$50,001-$100,000				2	2	100	
$100,001-$250,000	2	29		5	5	71	
$250,001-$500,000	2	40		3	3	60	
$500,001-$1,000,000	1	9	2	6	8	73	2
$1,000,001 and over	1	14		4	4	57	2
Unknown			2		2	67	1
Total of column	6	16	4	23	27	71	5
Total all firms	38				38		38

Of those firms who consider the current training arrangements unsatisfactory, the demand is for an expansion and revision of the training programs or their revision, with a large majority of firms opting for the former. For both trades and management training, the firms recommended that the focus be on training specifically for renovation. Some firms said that totally new programs would have to be introduced, while others, cognizant of the possibly limited enrolment in these programs, suggested that additions and/or modifications be made to existing programs. All firms strongly supported the concept of on-the-job training, particularly for tradesmen.

The preferred location of the training programs differed for management and trades training. For trades, most firms preferred a combination of training at community colleges and on-the-job sites. For management, the preference was for programs to be offered by community colleges, or trade associations or government agencies (e.g., CMHC).

The types of courses preferred varied. For trades training, they ranged from full-length apprenticeship programs to short courses designed to teach the fundamentals of various trades so as to widen the on-site employment prospects of labourers, tradesmen and renovators themselves. Several renovators suggested that tradesmen should be classified according to the types of skills they possessed.
To become qualified to work in a specific skill area (e.g., hanging doors), the tradesmen would be required to take a course and pass a practical test and receive a certificate of qualification. A fully qualified tradesman would be well versed in each of the skill areas.
For management training, some renovators suggested taking the construction management courses offered by community colleges. Others preferred short courses on such topics as financing, estimating, time management, etc.; these courses should be held at convenient times (e.g., in the evenings or weekends) and should be practical and comprehensive and should be taught by qualified teachers with a good personal knowledge of the renovation industry.

As discussed previously in this chapter, there is an increase in the use of sub-contracting by renovators. The renovators obviously believe that there are clear advantages to such a practice, principally the opportunity to reduce overhead costs and charge the cost of labour to specific projects. Yet, the renovators are not completely satisfied with this arrangement. (See Table IV-6).

TABLE IV-6

The Number of Renovation Contractors Who Have Encountered Problems in Using Sub-trades, According to the Size of the Firm (as measured by Gross Sales in 1981)

Size of Firm	Contractors Encountering Difficulties		
	N	Col %	% of Size Group
$25,000 and under]	2	5	67
$25,001-$50,000]			
$50,001-$100,000	2	5	100
$100,001-$250,000	4	11	57
$250,001-$500,000	3	8	60
$500,001-$1,000,000	8	21	73
$1,000,001 and over	4	11	57
Unknown	1	3	33
Total of column	24	63	63
Total all firms	38	100	100

The firms which said they have no significant problems in this regard are usually well-established firms which have developed a strong relationship with a specific group of sub-contractors.

Several complaints are made about the sub-contractors. The most frequent problems encountered include failure to show up on-site or showing up late; poor productivity and/or quality without an inordinate amount of oversight and pressure by the renovator; complaints by homeowners regarding the behaviour of sub-contracting firms; scheduling difficulties; and failure of sub-trades to be co-operative with the other trades (e.g., the carpenter who blocks an access for electrical wiring). Renovators said they had to constantly supervise the work of the sub-contractors and to complain vigorously when work was not done according to the renovators' wishes. However, most renovators said the situation did improve as they became accustomed to working with each other.

Acquisition of Materials

Renovators are reasonably satisfied with both the availability and delivery times of building materials. (See Table IV-7). Approximately 90% of the firms claimed that this service was good or fair. Those that complained about availability usually had problems obtaining non-standard items or items that had been advertised in magazines in the United States but were not available in Canada. Several renovators remarked that the availability for some materials can become limited in periods of peak demand (e.g., cedar decking). With the trend to reduce overhead costs by carrying lower inventories, the problem of availability might become more serious when demand increases.

Most renovators had building material suppliers which they dealt with regularly and with which they had accounts. Some renovators had accounts with more than one distributor. Some renovators purchased materials directly from the manufacturer (e.g., windows and doors). Payment periods for accounts from suppliers ranged from 120 days to time of purchase (cash sale); several contractors said that suppliers were moving to 30 day payment periods for accounts.

TABLE IV-7

The Assessment by Renovation Contractors of the Availability and Delivery Times of Building Materials, According to the Size of the Firm (as measured by Gross Sales in 1981)

Size of Firm	Availability						Delivery Times					
	Good	Fair	Poor	Not Known	Total		Good	Fair	Poor	Not Known	Total	
	N	N	N	N	N	Col %	N	N	N	N	N	Col %
$25,000 and under]												
$25,001-$50,000]	2	1			3	8	2	1			3	8
$50,001-$100,000	2				2	5	2				2	5
$100,001-$250,000	3	2	2		7	18	2	4	1		7	18
$250,001-$500,000	4	1			5	13	5				5	13
$500,001-$1,000,000	6	2	1	2	11	29	8	1		2	11	29
$1,000,001 and over	4	1		2	7	18	4	1		2	7	18
Unknown	2	1			3	8	2	1			3	8
Total N	23	8	3	4	38	xx	25	7	1	4	38	xx
%	61	21	8		xx	100	66	18	3	11	xx	100

Quality Control

Renovators said they put a high priority on achieving a good standard of workmanship. Their customers demanded it since they had to live with the workmanship in their renovated houses. The renovators wanted to do this (a) for their own satisfaction in doing a good job, (b) for the reputation of the firm and the potential referrals coming from satisfied customers, and (c) for the saving of money and time required to repair the consequences of poor workmanship.

All of the firms surveyed reported that they did take specific steps to control the quality of workmanship.

Renovators relied on several means to control work quality. (See Table IV-8). Most firms relied on more than one method. The most frequently cited method was the personal supervision of the job by the renovator. This was followed by exercising careful attention to the selection of tradesmen and sub-contractors and by holding the sub-contractors to the terms of their contracts. The scrutiny of on-site supervisors, tradesmen, building inspectors and the customers themselves also helped to keep up the standard of workmanship.

TABLE IV-8

The Steps Taken by Renovation Contractors to Control the Quality of Workmanship on the Job

Method of Quality Control*	Number of Firms	% of all Firms(38)
Personal supervision by owner(s)	36	95
Choose tradesmen and contractors wisely	16	42
Hold sub-contractors to terms of contract	16	42
Supervision by on-site supervisor	12	32
Clients	11	29
Building inspectors	10	26
Supervision by firm's tradesmen	6	16
Other	1	3

* Firms may cite more than one method, with maximum of five responses per firm.

Productivity

All of the firms surveyed reported that they took specific steps to promote productivity on the jobs.

The principal methods employed were personal supervision by the renovator, holding sub-contractors to the terms of their contract, careful selection of tradesmen and sub-contractors and the use of on-site supervisors. (See Table IV-9). Renovators claimed that they had to be constantly vigilant and prepared to put pressure on tradesmen and sub-contractors to keep the work on projects moving. Unless good supervision is available, work slows down or stops because decisions are not made, schedules are thrown out of order, some of the workers may slacken their pace, and bottlenecks may develop.

TABLE IV-9

The Steps Taken by Renovation Contractors to Promote Productivity on the Job

Methods of Productivity Promotion*	Number of Firms	% of all firms (38)
Personal supervision by owner(s)	34	89
Hold sub-contractors to terms of contract	18	47
Choose tradesmen and sub-contractors wisely	13	34
Supervision by on-site supervisor	12	32
Supervision by firm's tradesmen	5	13
Clients	5	13
Other	2	5

* Firms may cite more than one method, with a maximum of three methods per firm.

Renovator-Customer Relations

The developement of a good working relationship between the renovator and the customer is very important to the success of the project. Good communications are needed to ensure the clients can let the renovator know what they want dont and can convey their satisfaction or dissatisfaction with the work being done. The renovators want to be able to advise customers and to inform them about the progress of the renovation. Should changes or extras be required and should one party have to do something as a precondition before the other can proceed with their role in the renovation, most renovators prefer that this be done in a calm and rational fashion. The renovators surveyed wanted the project itself to go as smoothly and trouble free as possible. They also wanted the customer to be satisfied with the work done and with the service provided by the renovator. The renovators wanted their customers to give them strong recommendations.

All the renovators, except for three speculative renovators who said they did not deal directly with customers, took specific steps to foster good relations with their customers. (See Table IV-10).

TABLE IV-10

The Number of Renovation Contractors Who Take Specific Steps to Promote Good Contractor-Customer Relations, According to the Size of the Firm (as measured by Gross Sales in 1981)

Size of Firm	Firms Promoting Good Relations		
	Number	Col %	% of all Firms (38)
$25,000 and under			
$25,001-$50,000	3	8	100
$50,001-$100,000	2	5	100
$100,001-$250,000	7	18	100
$250,001-$500,000	5	13	100
$500,001-$1,000,000 *	10	26	91
$1,000,001 and over **	5	13	71
Unknown	3	8	100
Total of columns	35	92	92
Total all firms	38	100	100

* One speculator considered the question did not apply to him.
** Two speculators considered the question did not apply to them.

Several approaches were employed by renovators to promote good relations with their customers. (See Table IV-11). The three most frequently cited methods used to achieve this goal are (a) to provide the customers with reliable information about the work and its progress and to educate them when necessary about renovation, (b) to use high quality materials and to do a high calibre of workmanship, and (c) to keep the renovation site as neat and clean as possible. In this last regard, several renovators remarked that their vacuum cleaners were their most important tools. Many of these methods are easy to use and are not costly (e.g., courtesy and respect for property) and do make significant improvements in the relations with customers.

However, not all customers as not all renovators are desirous of good relations. Some customers, so the renovators related, try to get things done for free, try to make substitutions at the renovators expense, try to get out of paying,or attempt to become professional supervisors when they really know very little about renovation. While most renovators overlook minor irritations like these, renovators find that it is not always possible to avoid arguments and ill-feeling if these attempts become too blatant and threaten the safety of the job or the financial returns of the renovator.

TABLE IV-11

The Steps Taken by Renovation Contractors to Promote Good Contractor-Customer Relations

Methods Used to Promote Good Relations*	Number of Firms	% of All Firms (38)
Information and education	34	89
Quality of workmanship and materials	22	58
Neatness on the job	16	42
Courtesy	13	34
Honesty about price and work	12	32
Make repairs to correct defective workmanship	12	32
Respect for clients' property	8	21
Try to oblige customers' wishes	3	8
Consultation with client	3	8
Punctuality	2	5
Other	5	13

* Firms may cite more than one method,with maximum of five responses per firm.

Government-Renovator Relations

The renovators were asked to discuss the relationship they had with government at all three levels (i.e., federal, provincial, and municipal). They were requested (a) to identify the problems which government policies, programs or regulations caused them on the job; (b) to identify roles which government should play in the industry; (c) to characterize the state of communications between renovators and government, and (d) to suggest improvements which government could make in their policies, programs and regulations. Also they were asked to identify the types of projects they undertook and the role of government supoort programs in the financing of those projects.

A majority of firms claimed that government policies, programs and regulations caused them difficulty in running their jobs. (See Table IV-12). Most dissatisfaction was registered regarding regulations with three-quarters of the firms complaining. Approximately three-fifths of the firms stated that programs caused them difficulty and just over half complained about policies. Firms with sales of $1,000,001 and over complained strongly about the negative effects of policies, programs and regulations as did firms in the two smallest categories regarding programs and regulations.

TABLE IV-12

The Number of Renovation Contractors Who have Encountered Difficulty on the Job Because of Government Policies,Programs and Regulations, According to the Size of the Firm (as measured by Gross Sales in 1981)

Size of Firm	Cause of Difficulty					
	Policies		Program		Regulations	
	N	% of Size Group	N	$ of Size Group	N	$ of Size Group
$25,000 and under						
$25,001-$50,000	1	33	3	100	3	100
$50,000-$100,000	1	50	2	100	2	100
$100-001-$250,000	4	57	5	71	5	71
$250,001-$500,000	2	40	3	60	3	60
$500,001-$1,000,000	5	45	3	27	7	64
$1,000,001 and over	5	71	6	86	7	100
Unknown	2	67	1	33	2	67
Total of Column	20	53	23	61	29	76
Total all Firms	38	100	38	100	38	100

The policies which were frequently mentioned by renovators as causing them difficulty were (a) the failure of government to take steps to provide a good economic climate for the operation of business firms, (b) the failure of government to reduce and then stabilize the interest rates, and (c) the neglect of the renovation industry by government. (See Table IV-13). The renovators claimed that the governments' ineffective economic and interest rate policies were causing potential buyers of renovation to postpone or cancel their purchases thus considerably reducing the sales of renovation firms. Renovators objected to the inadequate attention being given by government to renovation and the governments' poor understanding of the industry; they said that there was more attention being paid to new construction and that most government housing programs were geared to new construction rather than renovation and that the programs designed for renovation were only having a limited effect.

TABLE IV-13

The Assessment by Renovation Contractors as to Which Government Policies Cause Them Difficulty in Running Their Jobs

Policies*	Firms Responding	
	Number	% of all Firms (38)
Poor general economic environment	14	37
High and unstable interest rates	11	29
Not enough attention to renovation industry	7	18
Inadequate financing arrangements for renovation	3	8
Actual and proposed policies for assessment of renovation properties	2	5
Other **	6	16

* Firms may cite more than one policy to a maximum of five per firm.

** Includes: policies towards unemployed which reduce their incentive to work; indecisive housing policy; consumer protection legislation; training of personnel for renovation industry; licensing of contractors; and financial protection for contractors from failure of customers to pay for work performed.

In terms of government programs, the renovators focussed on the Canadian Home Renovation Plan (CHRP) as causing them the most problems. (See Table IV-14). The Canadian Home Insulation Program (CHIP) was mentioned by about a quarter of the firms in this regard. A small number of firms had complaints about the Canadian Oil Substitution Program (COSP) and the Residential Rehabilitation Assistance Program (RRAP).

TABLE IV-14

The Government Programs Considered by Renovation Contractors to Cause Them Difficulty in Running Their Jobs

Programs	Firms Responding	
	Number	% of All Firms (38)
RRAP	5	13
CHRP	19	50
CHIP	9	24
COSP	5	13
OHRP	0	0

Most firms knew about the existence of CHRP, CHIP and COSP although not all had a good understanding of them. Most firms had had little contact with RRAP or the Ontario Home Renewal Program (OHRP) and knew little of them; in fact, many had never heard about their existence.

Most firms had very little actual direct exposure to these programs. For instance, of the 302 units completed by 12 firms in 1982, the only government grants used were those from CHRP and they subsidized the work on just 4 units (3 additions and one improvement). In 1981, none of these firms did projects receiving government grants for renovation.

This activity was taking place though at a time when a substantial number of units were receiving grants from programs like RRAP AND CHRP. (See Table IV-15). In Metropolitan Toronto for instance, the number of RRAP grants increased from 23 in 1981 to 845 in 1982 with dollar amounts increasing from $121,000 to $1,312,000. The number of CHRP grants made in 1982 was 2,252 and these were worth $3,754,227. The average amount per grant was $5,260 in 1981 and $1,553 in 1982 under RRAP and $1,667 under CHRP. Most of the RRAP grants were for repairs while most of CHRP grants were for improvements. (See Table IV-16).

The major complaints made about these programs centered on excessive bureaucracy, delays, poor inspection system, ineffective selection criteria, etc.

TABLE IV-15

The Number of Grants Made Under the RRAP and CHRP in 1981 and 1982 Calendar Years in each of the Boroughs of Metro Toronto

RRAP

Borough	Number of Grants*		$ Value of Grants*	
	1981	1982	1981	1982
Borough of Etobicoke	1	1	1,000	13,000
Borough of East York		-		-
City of North York		513		626,000
Borough of Scarborough	2	5	5,000	27,000
City of Toronto	20	326	115,000	646,000
Borough of York		-		-
Total	23	845	121,000	1,312,000

* Excludes N.P.RAP processed by Social Housing as part of acquisition and repair loans.

CHRP *

Borough	Number of Grants	$ Value of Grants
	1982	1982
Borough of Etobicoke	350	513,918
Borough of East York	84	122,627
City of North York	502	810,376
Borough of Scarborough	436	666,436
City of Toronto	757	1,421,014
Borough of York	123	219,856
Total	2,252	3,754,227

* Program started in 1982

Source: Based on data supplied by Barbara Lea, Toronto Branch, CMHC.

TABLE IV-16

The Types of Units Completed in 1981 and 1982 Calendar Years Using Grants Provided by RRAP and CHRP

Type of Unit	Percentage distribution of units completed which were financed by:		
	RRAP		CHRP
	1981	1982	1982*
Residential Construction Repairs	87	98	
Maintenance			
Additions			10
Improvements	13(disabled)	2(disabled)	90 Kitchens, Bathrooms, Windows
Conversions			
Deconversions			
Reclamations			
Reversals			
Total	100%	100%	100%

* Program started in 1982.

** See Appendix A for definition of terms.

Source: Based on data supplied by Barbara Lea, Toronto Branch, CMHC.

A large number of firms criticized the building codes and zoning by-laws as regulations which caused their firms difficulty. (See Table IV-17). The uncertainty, frustration and delays associated with satisfying these regulations were considered by most firms to be a serious hardship to their firm. This translated into additional costs and a wastage of time which was borne by the renovator; whenever possible the costs then were passed on to the customer. Some customers, faced with the uncertainty and delay, postposed or even cancelled these renovations to the detriment of the renovator.

TABLE IV-17

The Government Regulations Considered by Renovation Contractors to Cause Them Difficulty in Running Their Jobs

Regulations	Firms Responding	
	Number	% of All Firms (38)
Building Codes	30	79
Zoning	30	79
Mechanics' Lien Act	3	8
Metrication	1	3

Most firms when criticizing government policies, programs or regulations, found fault not only with the standard or programs themselves, but also with the administrative procedures designed for their implementation and also the interpretation made of them by government officials. (See Table IV-18). The criticism about procedures and the interpretation by officials was most often heard as they applied to programs and regulations, especially building codes and zoning.

TABLE IV-18

The Aspects of Government Programs or Regulations which Renovation Contractors Consider Cause Their Firms Difficulty in Running Their Job

Aspect	Firms Responding	
	Number	% of all Firms (38)
Standard on Programs Themselves	33	87
Procedures	32	84
Interpretation by Officials	33	87

Despite the criticism of government voiced by renovators, the majority of the firms said they felt government should play a role in the industry. (See Table IV-19). The strength of the support for this viewpoint however was lukewarm. Although 36 firms said government should have a role to play in this industry, 18 firms, many of whom were in the medium to large-size category, reported that this role should be minimal and should be limited to improving current conditions and that there should be no significant new involvement; in fact, many of these firms would prefer no government involvement in principle but conceded that this would not be possible in practice. For instance, such matters as interest rate levels, the training of tradesmen, and the licencing of tradesmen are all beyond the current capability of the industry to do alone without government assistance.

TABLE IV-19

The Number of Renovation Contractors Who Consider that Governments Should Play a Role in Residential Renovation, According to the Size of the Firm (as measured by Gross Sales in 1981)

Size of Firm	Firms Who Feel Governments Have A Role		
	Number	Col %	% of Size Group
$25,000 and under			
$25,001-$50,000	3	8	100
$50,001-$100,000	2	5	100
$100,001-$250,000	7	18	100
$250,001-$500,000	5	13	100
$500,001-$1,000,000	9	24	82
$1,000,001 and over	7	18	100
Unknown	3	8	100
Total of column	36	95	95
Total all firms	38	100	100

Renovators had some specific suggestions as to what the three levels of government should do for the renovation industry. (See Table IV-20). In terms of priorities, they thought that the federal government should concentrate on putting the financing of renovation on the same basis as that for new construction and improving the training and educational programs for the renovation industry. They wanted the provincial government to introduce effective licencing arrangements for renovators and to improve the training and educational programs for the renovation industry. And they urged the municipal government to streamline the procedures for obtaining building permits and to introduce a renovation code to modernize building codes and zoning regulations.

Most of the suggestion are designed to improve the operation of existing policies, programs or regulations rather than to call for more government intervention through the introduction of new initiatives by government.

TABLE IV-20

The Role(s) that Renovation Contractors Think Government should Play in Residential Renovation, by Level of Government

Roles to be Played*	Firms Responding Number	Firms Responding % of All Firms
Federal Government:		
-consider renovation on same basis as new construction	16	42
-improve training and educational programs for renovation evaluation	16	42
-improve economic climate	15	39
-make interest rates lower and more stable	12	32
-introduce financial or tax incentives for homeowners to renovate	12	32
-continue grants program but deliver them in better fashion	11	29
- provide better information on the industry	8	21
-continue assitance to renovation through existing programs which are viable	5	13
-introduce warranty programs for completely renovated homes	1	3
-energy conservation	1	3
-encourage work ethic	1	3
-introduce national renovation building code	1	3
Provincial Government:		
-introduce effective licensing for renovators	21	55
-improve training and educational programs for renovation industry	16	42
-revise Mechanics' Lien Act to give more and faster protection to renovators	3	8
-introduce financial incentives for homeowners to renovate	2	5
-impose penalties on renovators who do shoddy work	1	3
-introduce province-wide renovation building code	1	3
Municipal Government:		
-streamline building code/zoning procedures	31	82
-introduce renovation code to modernize zoning and building codes	30	79
-introduce effective licencing for renovators	21	55

* Firms may each cite more than one suggeston, with a maximum of five suggestions per firm.

All of the firms thought that one of the major difficulties in dealing with government at all levels was the poor communications which exist. All thought that there was considerable room for improvement in this area, and some claimed that considerable progress had been made recently, particularly through the Renovators' Council of the THBA. Indeed, most firms wanted this association to be a main link between the renovators and government. The renovators wanted good channels of communication to be established and also a greater bilateral understanding to be developed. Several renovators wanted government to provide greater amounts of information to be sent to them directly about the policies, programs and regulations of government and to make the access to this information easier to obtain (e.g., have a specific telephone number or contact person designated in government agencies). Many renovators felt that renovators should be brought into discussions with government when changes in policies, programs or regulations were being contemplated.

The vast majority of firms thought that government policies, programs and regulations could be improved to better serve the needs of the renovation industry. (See Table IV-21).

TABLE IV-21

The Number of Renovation Contractors Who Consider That Government Policies Programs and Regulations Can be Better Geared to Accommodate the Needs of the Renovators, According to the Size of the Firm (as measured by Gross Sales in 1981)

Size of Firm	Firms Responding	
	Number	% of Size Group
$25,000 and under		
$25,001-$50,000	3	100
$50,001-$100,000	2	100
$100,001-$250,000	7	100
$250,001-$500,000	5	100
$500,001-$1,000,000	10	91
$1,000,001 and over	7	100
Unknown	3	100
Total of column	37	98
Total all firms	38	100

In the area of policy, the main suggestions were to improve the general economic environment, to consider complete renovations as being on par with new houses for the purposes of grants and financing, and to stabilize and lower the rates of interest. (See Table IV-22a). These suggestions as well as many of the others are designed to stimulate the growth of the industry and bring it a better sales year than that experienced in 1982.

TABLE IV-22a

The Suggestions by Renovation Contractors About the Way Government Policies can be Better Geared to Accommodate the Needs of the Renovators

Suggestions for Imrovements	Firms Responding	
	Number	% of All Firms(38)
a) Policies *		
- improve general economic environment	18	47
- consider complete renovation as being on par with new house for grant and financing purposes	17	45
- stabilize and lower interest rates	14	37
- provide adequate financing or tax incentives to encourage homeowners to renovate their houses	11	29
- pay more attention to the renovation industry	7	18
- provide more information on existing policies and programs and regulations as they relate to renovation industry	3	8
- review policy regarding converting of single family houses into multiples	3	8
- adopt "hands-off" policy for the renovation industry	3	8
- ensure that assessment policy will not put renovated property in unfair situation	2	5
- remove disincentives to work & foster work ethics	2	5
- make mortgage money available for spec renovators	1	3
- revise consumer protection policy to improve position of renovator vis à vis the customer	1	3

* Firms may each make more than one suggestion up to a maximum of five responses per firm.

The renovators who responded to the question about suggestions in the program area were uniformally critical about the excessive bureaucracy and "red-tape' associated with the programs and the lack of information about the programs. (See Table IV-22b). Many renovators had not participated in projects receiving these grants and a significant number of firms had little or no knowledge about the programs. Several said they did not want to become involved in projects so financed, although some said they might do so if the homeowner insisted and the paperwork was kept to a minimum. Most renovators resented giving free estimates for such programs when they knew that the homeowner was getting their estimate merely to satisfy the requirements of a grant program. The renovators wanted the programs streamlined. They suggested that the programs' dollar limits be brought into line with the current cost of renovations; most renovators regarded programs like CHRP to be geared for the repair market rather than the major renovation market (e.g., additions or second storeys) and that the main beneficiaries in the industry were handymen and small repair contractors.

TABLE IV-22b

The Suggestions by Renovation Contractors about the Way Government Programs can be Better Geared to Accommodate the Needs of the Renovators

Suggestions for Improvements *	Firms Responding	
	Number	% of All Firms(38)
b) Programs		
1) Grants		
i) RRAP		
- less bureaucracy and paperwork	6	16
- abolish program	4	11
- better information	4	11
- raise income ceilings of homeowners	3	8
- reduce role of inspectors in pricing	1	3
- policy directives on which homes should be torn down and not renovated	1	3
ii) CHRP		
- less bureaucracy and paperwork	15	39
- better information	10	26
- raise upper limits of grants; permit major renovations and additions to be done	6	16
- abolish program	4	11
- better and faster inspections	4	11
- raise income ceiling of homeowners	4	11
- require all bids to be based on single set of specifications	2	5
iii) CHIP		
- better information	6	16
- less bureaucracy and paperwork	6	16
- abolish program	5	13

* Firms may make more than on suggestion up to a maximum of five responses per firm.

TABLE IV-22b (continued)

Suggestion for Improvements *	Firms Responding	
	Number	% of All Firms(38)
iv) COSP		
- less bureaucracy and paperwork	7	18
- better information	6	16
- abolish program	5	13
v) OHRP		
- less bureaucracy and paperwork	5	13
- abolish program	4	11
- better information	4	11
- raise income ceilings of homeowners	2	5
2) Training Programs		
- introduce effective education and training programs to produce qualified trades and management personnel in the renovation industry	9	24

* Firms may make more than one suggestion up to a maximum of five responses per firm.

When asked about regulations, the renovators were strongly in favour of making improvements to the building permit system. (See Table IV-22c). They recommended the introduction of a renovation code, the streamlining of the process of acquiring a permit and the improvement in the guidelines given to officials. Also, a majority of the firms wanted an effective licencing arrangement for renovators which would prove, at least,the technical competence of renovators.

TABLE IV-22c

The Suggestions by Renovation Contractors about the Way Government Regulations can be Better Geared to Accommodate the Needs of the Renovators

Suggestions for Improvements *	Firms Responding	
	Number	% of All Firms(38)
c) Regulations		
i) Building codes and zoning		
- introduce standardized renovation code	32	84
- streamline process	30	79
- improve the interpretation guidelines for officials	20	53
ii) Mechanics' Lien Act		
- revise to give better protection for contractor	4	11
iii) Renovators Licence - introduce effective licencing arrangement for renovators to ensure:		
- technical competence	21	55
- financial soundness	7	18
- adherence to business ethics	1	3

* Firms may make more than one suggestion up to a maximum of five responses per firm.

Some progress has already been made along the lines raised in these suggestions. The Renovators' Council of THBA has been in contact with all three levels of government to discuss some of these issues, particularly in regard to building permits, Mechanics' Lien Act and parity for renovation with new construction. Also, by the spring of 1983, interest rates declined considerably from the heights reached in 1982.

Problems Encountered by Ronovators in Running the Job

The three most frequently mentioned problems were those of cash flow and financing, scheduling of projects, and customer relations. (See Table IV-23). For these problems and most of the others raised, the problems were confined largely to the firm and the expertise and the experience the renovator could bring to the job. With additional training and on-the-job experience, most renovators probably will be able to improve their performance in these areas and so reduce the impact of these "problems". However, some problems such as the poor image held of the industry by the public, and the impact of government regulations are industry-wide and are really beyond the scope of the individual firm to change significantly.

TABLE IV-23

The Major Problems Encountered by Renovation Contractors in Running the Job

Problem*	Firms Responding	
	Number	% of All Firms(38)
Cash flow and financing	14	37
Schedule of projects	13	34
Customer relations	12	32
Personnel-subs & tradesmen	10	26
Overcoming the poor image of the industry created by "Fly-by-Night" firms	9	24
Adjusting to changing market conditions	8	21
Time management	5	13
Quality control	4	11
Productivity	3	8
No significant problems	3	8
Government regulations	1	3

*Firms may each cite more than one problem up to a maximum of four per firm.

Problems Encountered by Renovators in Completing the Job

By far the most serious problems faced by renovators at the end of a project is getting paid for the work done. (See Table IV-24). Without prompt payment, most contractors start to have some difficulty with their cash flow meaning that the suppliers and tradesmen in particular may have to wait to receive their payment. Some of this delay is caused by customers not paying because (a) the work is not done to their satisfaction, (c) they have financial difficulties, or (c) they are trying to defraud the contractor. A significant problem in the area of payment is that of extras and changes.

Renovators are interested in seeing that the work is done properly and the customer is satisfied with the work. This has a direct bearing on how quickly final payment is received and also the referrals the renovator will receive from the customer.

Speculative renovators are concerned about the sale of their product and what they can do with the property should there be no sale.

TABLE IV-24

The Major Problems Encountered by Renovation Contractors in Completing the Job

Problem*	Firms Responding	
	Number	% of All Firms
Getting paid	22	58
Making sure customer is satisfied with the work	13	34
Customer relations	7	18
Negotiating and collecting for extras and changes	6	16
No significant problems	5	13
Making sure house is clean and no damage has been done	3	8
Selling the product (for spec renovation)	3	8
Achieving the best return from unsold inventory (for spec)	3	8

* Firms may each cite more than one problem up to a maximum of three per firm.

Summary

When they are on the job-site, the renovators are faced with handling such matters as financing, scheduling, personnel, materials acquisition, quality and productivity control, consumer relations and relations with government. Most firms arrange for some form of payment schedule to finance work-in-progress. Scheduling is a major concern of renovators as personnel and materials are brought together. Some firms claim there are shortages of qualified renovation tradesmen while others say there are adequate supplies. Materials are currently in adequate supply. Renovators rely on their own supervision of projects to promote productivity and to guarantee control over quality. Consumer relations claim a considerable portion of the attention of most renovators and most take definite steps to promote good relations with their customers. Most renovators think government should limit its role in the industry (a) to providing a good economic environment for the operation of the industry, (b) to treating renovation on an equal basis as new construction, and (c) to improving the quality and delivery of its current policies, programs and regulations as they apply to the industry. The main problems encountered by firms in running the jobs are cash flow, scheduling, customer relations and personnel. At the completion stage, the main problems are concerned with getting paid and customer relations.

SECOND SECTION

AN OVERVIEW OF THE STATE OF THE INDUSTRY

CHAPTER V

The renovation industry in Toronto is young and growing. It is faced with many problems; some, directly attributable to its youth, others, common to most other industries in the service sector. The description of the structure and the operation of firms in the industry was presented in the First Section of this monograph (i.e., Chapters I-IV). In this chapter, the data presented in the First Section will be analyzed and presented in summary fashion to address the major objectives of this survey. In order, these objectives, presented in full in the Introduction, are to:

1) Profile the industry to get a better understanding of its structure and operation;
2) Identify the problems/concerns of renovators and the remedies they propose;
3) Determine the capability of the industry to meet the forecasted demand for renovation;
4) Identify the effects of government policies, programs, and regulations on the industry and list the suggestions made by renovators as to the role of government vis à vis this industry;
5) Ascertain the employment generation produced by renovation; and
6) Develop a better understanding of renovator-consumer relations.

1) Profile the Industry

The renovation industry in Toronto is young, fragmented and barely organized as an industry. It is certainly not as easily identified an entity as is new construction. Until the formation of the Renovators' Council of the T.H.B.A., the industry had no organized voice to raise its concerns to the public or government or to respond to enquiries about the operation of the industry.

Without a good understanding of the operation and concerns of the industry, it was possible for the industry to be forgotten when decisions important to it were being made. Nor could it effectively respond to criticisms made of it. The present survey has revealed a considerable amount of information about the structure and operation of this industry.

In terms of its structure, it is composed of a network of firms of various sizes and purposes which align to perform the function of renovating buildings. The speculative renovators, design builders, project managers, general contractors and trade contractors all have roles to play. Following the economic recession of recent years, the focus has shifted to the general and trade contractors as the principal players. The firms vary in size from those doing under $100,000 worth of gross sales to those making sales of a million dollars. Many of the firms are young, being in business under five years although there are firms with over a decade of experience. Most firms are incorporated partnerships or sole ownerships. Renovators come from a varied background in terms of prior education and occupation; although some renovators have backgrounds as tradesmen, many have had college or university training and have worked in management and professional capacities. The ease of entry into the industry (i.e., low level of capital and overhead), the possibility of good economic returns, and the pursuit of the life-style of a renovator (i.e., own boss who can combine managerial, technical, creative and physical skills) are primary reasons for entering this industry. Cash flow and equity are the main sources of entry financing both for capital and operating purposes; these types of financing figure very prominently as well in keeping the firm in business.

The renovators who participated in the survey revealed some of the main aspects of the operation of their firms including how they obtained and ran their jobs. The firms had each defined the number, size, and preferred location of the projects they would undertake. The ability to carefully supervise projects was a crucial factor in the making of this selection; personal supervision also figured as the key ingredient in productivity and quality control. Planning is done by most firms with a wide range of the firms' major functions being covered. However, because of the potential instability of demand, planning is very difficult and tends to cover a short time-span often extending from project to project or quarter to quarter. Most renovators have developed a profile of what they want their firms to do and how they want them to develop.

In getting a job, the renovators rely very heavily on establishing good relations with potential customers and on exercising a keen eye in preparing estimates. Word of mouth referrals from previous customers, friends, architects, and other contractors are the single most important source of new work for renovators. Several renovators also engaged in advertising as well through the use of flyers, signs, newspaper advertisements, etc. Marketing may get the renovator in the customer's door, but it will be the suitability of the estimate and the degree of confidence the customer can place in the firm that will determine whether the renovator gets the job. Unfortunately, say the renovators, not very many customers are knowledgeable about renovation. As part of the customer relations efforts of renovators, then, is a large component of customer education. Also, unfortunately, many customers ask for bids from contractors but do not have a common set of plans and specifications to offer the bidders; the result is often a set of bids which are not based on equal estimates for design, labour or materials. For the protection of their consumers and for other reasons, many of the renovators surveyed had liability insurance and a renovator's licence.

In running the job, the renovators are largely faced with the tasks of scheduling the coming together of personnel and materials in a way that will produce a well-built and efficiently constructed renovation. This means careful attention to selecting the right on-site personnel whether they be the firm's own employees, or increasingly more likely, subcontractors. It means ordering the right materials for carefully specified times. The renovator or the firm's on-site supervisor is responsible for making sure that the work goes ahead smoothly, that the customer is kept informed about the progress of the work and that the agreed-upon payments from the customer enter the renovator's account on schedule and exit that account to pay the trades and the suppliers. In addition, the renovator must also be capable of meeting the demands created by government programs (e.g., CHRP and RRAP). Finally, when the project is completed, the renovator and the customer must agree that the job has been completed according to the specifications before the final payments are made to the renovator.

The renovation industry is one which is slowly evolving an identity as its member firms become more established and the linkages that exist among the contractors, suppliers, designers and customers become more institutionalized and better understood. Certainly, the industry is much more solid and established and business-like that the common public perception portrays it. It is a myth to suggest that the industry is just a collection of (a) "fly-by-nighter's" and operating from the back of a battered pick-up truck soliciting business through door-to-door high pressure sales pitches, and (b) honest neighbourhood handymen coming around in his overalls to repair the back steps or to put in a new kitchen cabinet. To be sure, the "fly-by-nighters" (who were universally condemned by the renovators surveyed) and the handemen are part of the industry, but they are not all of it. The renovators are taking their place on the construction scene in Canada alongside the builders of new structures. The formation of a national organization of renovators within the structure of the Housing and Urban Development Association of Canada is a clear indication of this growing maturity.

2) Renovators' Problems/Concerns and Proposed Remedies

Renovators are faced with problems when they enter the industry and while they operate their firms both on and off the job-site. They also have some thoughts as to how to remedy these problems.

The most common problems in the industry are those of cash flow and financing, customer relations, personnel, finding work and improving the professional standards of firms in the industry. Some of these problems are due to the firms being inexperienced and not sufficiently well trained, while other problems are structural in nature and as such are beyond the reach of individual renovators to solve.

The problems differ depending upon the stage of development of the firm and the particular aspect of the firm's operations being considered.

When the renovators were entering the industry, some firms claimed to have had no problems and that it was easy to enter the industry. while others said they faced problems, some of which were severe. In this latter group, many of the firms reported they had difficulty in learning about the operation of the industry and how they should do specific tasks (e.g., acquiring personnel). Because of the tremendous significance of word of mouth referrals in getting business, the acquiring of a "track record" was a cause of great concern for several firms. In developing a "track record", these firms would have to deal with the problems of unpredictable cash flow, marketing and consumer relations in the context of very uneven demand for their services.

In the regular day-to-day operation of the firm, problems with sales, financing and customers predominated. Renovators had difficulty in coping with the instability in demand for their services due to cyclical and seasonal factors. The problems with cash flow and financing were related to the instability in demand, scheduling difficulties on jobs, and the failure of customers to pay when they should. The difficulties with customers were partly due to the customer's relative lack of knowledge about renovation and to differences in interpretation of contractual obligations.

The problems encountered by renovators on-the-job varied somewhat in importance depending upon the stage of the job being undertaken. When getting a job, renovators compalined most about unfair competition from unscrupulous or incompetent contractors. The renovators also had significant problems in the areas of customer relations, marketing and estimating. The running of the job raised problems in the areas of cash flow, scheduling, customer relations and personnel. At the completion of the job, the renovators said they had problems with getting paid, client satisfaction and customer relations.

Some of these problems are ones which can be alleviated or solved by the renovator himself while others are ones that require the participation of other firms within the industry or the joint efforts of the industry, government and other interested parties. In some cases, all three approaches may be needed.

Several of the problems are due to the inexperience or lack of knowledge of the renovator about his work. Financial management, estimating, personnel, scheduling, marketing, customer relations, etc. are subjects which can be learned, at least in theory, through reading and studying. Several renovators wanted to improve their knowledge in these subjects and recommended that courses and materials directly relevant to renovators should be made available at suitable times, locations and costs. This is something that would require involvement by the industry as a whole and probably government. Presumably, renovators who had been exposed to this knowledge would apply it in the operation of their firms and so reduce the severity of the original problems.

Other problems, such as unfair competition and the unfavourable image of the industry would require the firms acting individually, together and possible in concert with other parties such as government bodies to identify the nature of the problems, develop standards of technical or financial or ethical performance for firms in the industry and to devise ways of policing the standards.[1]

[1] Problems involving government are discussed later in this chapter, as are those related to personnel and customer relations.

The renovators thought that their association should play a leading role in this drive to professionalize the industry.

For other problems, the solutions should be directed not at the renovators but at consumers or governments. These efforts to educate and inform the consumers or government about the renovation process and the renovation industry could be done by the industry itself and on a bilateral and multilateral basis.

And for still other problems, such as those involving government programs and regulations, structural and operational changes might be needed to improve them and to make them more amenable to the current set of conditions.

3. Capability and Strategies

The renovation industry is extremely adaptable to changing economic conditions and demand patterns. Several factors account for the flexibility. First, it is easy for firms to enter into and exit from the industry due to the low capitalization involved and the limited amount of prerequisites needed to operate a renovation firm (e.g., licences, insurance, etc.). The lure of receiving good financial returns and being your own boss are only two reasons why firms are started in periods of increasing demand. Secondly, the cost of operating the firm can be kept at a relatively low level and altered to meet the demand through the extensive use of sub-contracting, renting and leasing arrangements. Thirdly, demand levels tend to be different according to the time of the year, the geographical location, the type of construction and the types of market involved; firms can relatively quickly shift, for instance, from one part of Toronto to another, from new construction to renovation, from residential to commercial construction or among any combination of the above. And fourthly, most renovators, due to necessity and/or perceived opportunity, are themselves risk-takers and are amenable to undertaking new challenges. The adjustments and the rethinking of corporate structure and objectives which occurred during the recent downturn in business in most renovation firms surveyed is highly indicative of the adaptability of the industry.

The issue of whether the renovation industry is capable of meeting increases in demand for their services is thus not one of the inherent adaptability of the industry to adjust quickly but one of the availability of resources, principally personnel and also materials, and of the presence of more profitable and appealing alternative work for these firms (e.g., in new construction).

The availability of personnel and materials is currently regarded as being adequate by most firms, although some firms contend that there is a shortage of qualified renovation personnel. However, demand is presently low. This assessment, therefore, could change if business was to improve markedly.

The seriousness of the personnel problem would depend on the type of renovation being done and the kind of personnel required. If renovators are prepared to use all tradesmen regardless of whether they have experience in renovation or not, then the problem might not be serious, requiring probably only scheduling changes. Renovators specializing in quasi-new renovations, such as additions or second storeys, would be most likely to adopt this approach. However, a serious problem could develop for those renovators who want tradesmen who are specialists in renovation work. The supply of tradesmen with these qualifications is limited and possibly decreasing as few young tradesmen are being trained for renovation work and an increasing number of experienced renovation tradesmen, many who have come from Europe, are retiring from the industry. Unless steps are taken to replenish this stock through the introduction of appropriate and sufficient training and educational programs, the capability of the industry to meet demand could be severely limited.

While bottlenecks have occurred in the past for specific materials, suppliers and manufacturers have generally been able to meet the renovators' demand for materials reasonably well. The choice of materials may be somewhat reduced and probably the time between the placing and filling of orders may be extended. This means that the renovators should be placing more attention on scheduling of projects to take account of these revised conditions.

However, this situation may be more serious in the future because most of the suppliers have reduced their inventory and shortened their billing periods to cope with the slow demand and high interest rates of the current economic recession. Suppliers are probably going to want to maintain these strategies to reduce their risks in future slowdowns. Even greater onus is thus placed on the renovators to order well ahead and remain flexible in terms of schedule and the use of materials. New training programs will probably be needed for renovators to improve these skills. Also better information on the properties of the various building materials may be required to provide renovators with the expertise for determining what substitutes can be used for materials which are in short supply.

The capability of the industry to meet demand could be seriously reduced if more profitable or appealing opportunities were to arise in new construction. This would mean that firms and tradesmen which had originally been in new construction would return to their original specialties. It might also mean that some of the experienced renovators and renovation tradesmen might make the transfer to new construction. While their numbers may be replenished by new firms entering the renovation field, their experience and quality of workmanship might not be duplicated. The problems created by consumer relations would cause some renovators to be seriously tempted to switch to new construction where the contact with the customers, especially on the job-site, is considerably less than for renovation. Steps taken to improve renovator-consumer relations might reduce this temptation.

The industry then should be capable of adapting to changes in demand, providing sufficient attention is given to the training of tradesmen and management personnel and the government,through its actions,does nothing to create sudden,dramatic and unexpected changes in the demand patterns.

4) Renovator-Government Relations

Generally speaking, renovators feel that government is not knowledgeable about the industry, neglects it and has usually had a negative impact on the industry through the policies,programs and regulations it imposes on the industry and the environment in which the renovators work. In fairness to government, the industry has until recently not been easy to understand or to communicate with seeing how fragmented it is, how relatively young it is and how limited it is in terms of the number of voices who can speak on behalf of the industry as a whole.

With the formation of the renovators' associations across Canada, more discussions are taking place between renovators and all three levels of government and this trend is likely to continue. Governments will learn more about the structure and operation of the industry and the concerns the industry has. With increased interaction, the renovators complaints about government lack of understanding and neglect of the industry should be lessened. With greater consultation, some or all of the negative effects of government policies, programs and regulations can be eliminated or lessened and new initiatives can be launched which can improve the industry.

The renovators claimed that all three levels of government had had negative affects on the industry through their policies, programs and regulations. The policies most objected to were those which had caused and maintained the poor economic environment of recent years and the high and unpredictable interest rates which negatively effected their sales and their ability to control their overhead costs. The renovators disliked many aspects of the housing policy, particularly the lack of attention given to renovation and the inequality in the financial incentives it provides to new as opposed to renovation construction.

The renovators most objected to the "red tape", bureaucracy, poor availability of information, and its restrictive elements associated with government programs like CHRP and CHIP and RRAP. However, most renovators had not had direct contact with these programs and some did not know much about them.

There was strong disapproval by most renovators of the current difficulties and delays associated with obtaining building permits. There was also dissatisfaction with the Mechanics' Lien Act and with the ineffectiveness of the licencing arrangements for renovators.

Renovators thought that the problems were not just with the standards or programs themselves, but also with the administration procedures and with the interpretations of the standards by the officials.

Most renovators wanted to limit the role of government in their industry. They realized that it was impossible to keep government out of their affairs even though some said this was the best solution. What they wanted then was for the government to provide a good economic environment for them, to listen to the industry, to communicate more effectively with the industry, to treat it equally with the new construction industry and to improve in the delivery of services and programs currently being provided. In the latter category are included the grant programs, training, licencing and regulations.

For their part, the renovators want to develop an organized voice for their industry so that effective dialogue can take place not just at the local level, but also at the provincial and national levels.

The industry would probably prefer to solve the problems it faces by making adjustments at the level of the firm or industry. However, this is not possible for all issues. Most firms are relatively small and have limited financial resources and personnel. Even at the industry level, the problems of finance, time, limited personnel and fragmentation restrict its ability to address such issues as training and education and the establishment and policing of professional standards in the industry. Therefore, the industry needs the assistance of all three levels of government to provide for these needs.

5) Employment Generation

Renovation,with exception possibly of additions and second storeys, is more labour intensive than the mass produced forms of new construction. Not only do materials have to be custom fitted, but also there are structural considerations peculiar to each job to keep in mind. Also there are the additional concerns, especially for partial renovations, of keeping the job-site clean and safe and of working in a manner that is least disruptive of the life of the customers. To do this, requires more time and often more manpower.

Except for additions and second storeys, which are suite similar to new construction, most renovations require tradesmen with different skills and aptitudes than is the case for new construction. Renovation needs tradesmen with a broad range of skills since they must be able to do several types of functions and be capable of working with designs and materials not commonly used now; the tradesmen cannot be as narrowly specialized as for production-line new construction. They must be capable of working on their own, making their own decisions, and building often from raw materials rather than simply installing prefabricated units. Several renovators said that the difference between good renovation carpenters and production-line carpenters is whether or not they can build staircases.

No only must they have the proper skills, renovation tradesmen must also have the right type of attitude and behaviour. These tradesmen are guests in the customers home, not on a production-line in a subdivision. Accordingly, such traits as good manners, polite speech, courtesy, honesty, respect for property, and neatness (both personal and work-wise) are essential.

There is considerable debate as to how renovation tradesmen are produced. Some renovators said that renovation tradesmen need to grow up in that type of construction to develop the necessary skills, aptitude and behaviour. They believed that new and revised apprenticeship programs were needed to produce this type of tradesmen; many looked to the model of the European-trained master builder or the Canadian tradesmen of the turn of the century as their ideal. Other thought that the current training programs which are mainly aimed at producing tradesmen for new construction are adequate for renovation work, providing they are shown what is expected of them in their new work environment (i.e., the customer's home).

This is directly contradicted by those renovators who believe that renovation tradesmen are sufficiently different in training as to make them unique; the only exception to this would be if they were working on quasi-new renovations (i.e., additions and second storeys).

Renovators, mainly for economic reasons, are usually not engaged in training tradesmen. They rely on the regular training and apprenticeship programs to produce the tradesmen.

Under current market conditions, a majority of renovators surveyed said there were sufficient tradesmen to meet the demand. However, some renovators said there was a shortage (they spoke mainly of the master builder type of tradesmen) while others said there was a surplus.

In the future, should demand for tradesmen stabilize at current levels or increase, then there could be a shortage if the master-builder type are required or an adequate supply of the production type used in new construction are needed. Many of the tradesmen who came to Canada from Europe will be retiring during this and the next decades and there are only a small number of this type of tradesmen being trained in Canada now. Unless expanded and revised training programs are introduced to train this type of tradesmen, then these renovators said there will be a severe shortage. However, if the new construction type can be used for renovation, the shifts from other types of construction plus the outflow from training programs should more than meet the demand.

The trades most frequently mentioned by renovators as needing the revised and expended training programs are the carpenters, bricklayers, masons and plasterers. The renovators wanted the level and type of training achieved by each tradesman to be clearly identified. Most renovators were reasonably satisfied with the qualifications of the certified trades (e.g., electricians and plumbers) because the renovators know what skills they possess.

Several renovators expressed concern about the need for the industry to produce more on-site renovation supervisors as well as office and management staff knowledgeable about renovation. Also, there was a need for training to improve the technical and managerial skills of the renovators themselves.

In addition to the on-site employment generated by renovations, there is employment created by renovation for manufacturers and building suppliers, inspectors, program administrators. Also, most customers make purchases to furnish their renovations. This means jobs for manufacturers and retailers of furniture, draperies, rugs, etc.

6) Renovator-Consumer Relations

The relations between renovators and consumers are generally in need of improvement. Both parties show deficiencies in this relationship, but much of the problem can be attributed to consumers who are not knowledgeable about the process and cost of renovation or the preferred methods for selecting renovators. Consumers who are not knowledgeable about renovation and who choose incompetent or unscrupulous contractors are almost certainly headed for trouble. The bad reputation borne by the industry is partially derivative of this combination of ignorance and avarice.

There is a great need for the consumer to learn about the renovation. This means that the customers should have a general understanding of what is involved in doing the renovation. The customers should know what they can afford to spend on renovation and how close the cost of their dream renovation comes to this budget. The customers should know what is to be renovated and what the finished renovation should look like. The customers should be aware of the inconvenience, noise, dirt, dust, delays and family and business disputes that normally accompany renovations. The renovators or architects can provide some assistance in acquiring this education, but they should not be responsible for tutoring the customer in a complete course in renovation. Once this stage has been reached, the consumer can follow one of two paths. They can go to a general contractor and develop detailed plans for th project, or they can request that a designer/architect produce a set of specifications and plans and then select a contractor, possibly on the basis of competitive bids. Most renovators thought that many of the problems with customers arose because proper plans and specifications were not prepared or that the customers were not fully aware of the meaning of the plans. Therefore, it is highly recommended that the preparation of good and easily understood plans and specifications should be the foundation of the business relation between the renovators and their customers.

The customers should know what to look for in choosing a renovator. While low price is important, it is not the sole creterion in selection.

The "track-record" of the firm, its technical and financial competence, its quality of workmanship and its punctuality are all important considerations. It is, therefore, not the lowest price, but the lowest effective price to do the job which should be the terminant in the selection of a renovator.

As the customers must choose the renovator carefully, so too must the renovator scrutinize prospective customers. People who are going to be poor payers or who are likely to be constantly criticizing and needlessly interfering should be viewed with considerable scrpticism as potential clients.

Education is, therefore, needed for the consumers and also for the renovators. The consumers need to be able to gain access to information about the process and costs of renovation and the steps which should be taken in choosing a renovator. Renovators need to be able to acquire training in customer relations, marketing, human relations and contracts administration. This could be provided by the association of renovators, by the government (e.g., CMHC or the appropriate departments in the provincial government), by educational institutions (e.g., community colleges), by consumers' associations or by a combination of these organizations.

The regulations governing the relations between renovators and consumers should be reviewed to guarantee that both parties are receiving equitable treatment under the law. Several renovators, for instance, complained about the inadequacy of the Mechanics' Lien Act and they recommended that changes be made to it to give them better financial protection.

And finally, the renovation industry, possibly acting in conjunction with the provincial and municipal governments, needs to introduce more professionalism into its ranks. This means attention should be given to guaranteeing that renovators are technically competent to perform work which vitally affects the health, safety and well-being of their customers. This may also mean that standards of ethics and possibly of financial competence be instituted in the industry. Many of the consumer complaints about the industry could be reduced if the public had confidence in the industry's standards. In an improved environment for the industry, it is highly likely that the relations between renovators and customers would also improve.

Summary

The renovation industry while still in its youth is maturing and becoming identifiable in Toronto. Its firms are each developing their own approaches to business. They differ in size, areas of specialization and expertise, organization and strategies. However, they all have the common purpose of doing custom-building. The problems faced by the industry are amenable to change through education and training, experience and some alterations of a structural nature.

The industry is extremely flexible and is capable of adjusting to changes in demand rapidly, providing the personnel and materials are there and there are no more attractive alternatives present. The industry wants government to limit its role and to concentrate on improving general economic conditions, putting renovation on par with new construction and improving the operation ot its policies, programs and regulations. Renovation is capable of generating considerable employment not only on-site but also among the manufacturers and suppliers of building materials and among the inspectors and service personnel off-site. Also, employment is generated in the after market. Some improvements are needed in renovator-consumer relations and education can play an important role to this end.

CONCLUSION

Since the mid-1970's, the renovation industry has grown and developed into a distinct part of the construction scene in Toronto. Many of the firms in the industry are young and are still acquiring experience. The industry is slowly organizing itself and defining its role in the broader construction industry in Toronto and in the rest of Canada.

The survey of 38 renovation firms in Toronto, upon which this study is based, revealed how the industry is structured and how the firms carry on their businesses. These firms varied in size with their gross sales ranging from under $50,000 to over a million dollars per year. Most of the firms are incorporated as partnerships or sole ownerships. The number of permanent employees in the majority of firms is small (under 5) with most personnel being supplied through sub-contracting. The renovators in the survey were mainly general contractors and speculative renovators although the ranks of the latter have been thinned due to the recent recession in the economy.

Most renovators have developed a plan and strategy for the operation of their firms. Because of the instability in demand and the problems encountered in amassing financial reserves from cash flow, the planning horizons are generally short-term. Nevertheless, each renovator has identified the firm's capabilities and tried to match them with his own business aspirations and with the realities of the market to determine where and when the firm should work, what number and size of projects should be done, what sector of the industry should be sought out, and what types of construction should be done. The key determinants in making these choices are the ability of the firm to supervise the projects and the anticipated rate of return.

The firms in the industry rely heavily on cash flow to finance their operations and limited capital acquisitions. Lines of credit and equity are also important sources. Most firms arrange for some form of progress payments to finance operations on projects.

Word of mouth referrals are the most common means of acquiring new work. In addition to its importance in marketing, this is also a strong inducement for renovators to control quality and on-the-job performance.

Customer relations is a key element in the success of renovation firms. It is essential that good relations are developed and maintained, especially in residential renovation, where the renovators are so closely tied with the day-to-day home life of the customer. A large part of this function is educating the consumer about the process and cost of renovation as most renovators consider that the majority of their customers are not knowledgeable about renovation.

To do the renovation, the firm must bring together the tradesmen and the building materials in the correct proportions and at the right time. Some firms have reported shortages of qualified renovation tradesmen , particularly among carpenters, bricklayers, and plasterers. Almost all firms reported adequate availability of building materials. All firms reported that they took steps to promote productivity and quality control.

The renovation industry is extremely flexible and can adapt to changes in the levels and types of demand very quickly. It is easy to enter into and exit from the industry due to the low levels of capitalization, fixed overhead and regulations required of firms in the industry. There is considerable similarity in the skills required for the various types of building construction. The major limiting factors would be the inputs of personnel, materials and financing.

The renovators reported that the firms in the industry are beset by some problems. At an industry-wide level there are the problems of (a) general slow demand for their services, (b) impediments to growth created by government policies, programs and regulations, and (c) a general lack of understanding by the public and government about the industry itself and the renovation process, and (d) a poor image for the industry created by the "fly-by-night" firms and by the absence until recently of an organized voice representing the industry. At the firm level, the most serious problems are those of financial management, consumer relations, scheduling, personnel, and marketing.

Some of the most frequently mentioned remedies to thse problems proposed by the firms surveyed include:

At the industry level

a) - government should improve the general economic climate and lower and stabilize the interest rates;

b) - government should treat renovation on par with new construction with regard to policy and programs;

- government should revise and streamline its programs and regulations (especially zoning and building codes) to facilitate rather than hinder the renovators' activities;

c) - renovators should further develop their own association to represent the interests of the industry to government and the public and to stimulate communication amongst firms in the industry;

- government should enter into discussions with the industry on a regular basis on issues of common concern;

- the industry,government and consumers' associations should develop educational materials to help consumers better understand the renovation process and the preferred ways of choosing reliable renovators;

d) - the industry should become more professional and should develop standards of technical competence and ethics to counter the negative image it currently has; changes in government licencing provisions may be needed to police these standards.

At the firm level

Training and educational programs for renovators and tradesmen should improve the performance of most firms and allow them to substitute to some extent acquired knowledge for on-the-job experience in their learning process. However, as the firms and the industry mature and get more experience, these problems should become less severe.

The survey of firms in Toronto revealed that the renovators want to develop responsible, long-lasting, and profitable firms which will respond well to the variety of demands for renovations made by their customers. They see the emergence of an industry which is becoming more sophisticated and responsible as it matures and becomes better organized and more clearly defined in its structure and functions.

APPENDIX "A"

Toronto Home Builders' Association

5218 YONGE STREET, WILLOWDALE, ONTARIO • TELEPHONE 226-0010

December 6, 1982

Dear name of renovator

Further to my request at the October meeting enclosed please find an outline of a questionnaire survey to be carried out by CMHC. The enclosure will explain the purpose of the study and an interview will follow. The interview will be arranged sometime in December or January by Don Caskie and it will be done at a mutually agreeable time.

Your co-operation is fully appreciated and allow me to thank you in advance.

Sincerely,

John Carbone, Chairman,
THBA Renovators Council.

JC/lj

The Operation of Residential Renovation Contracting Firms

Introduction to Leave Questionnaire

The Canada Mortgage and Housing Corporation is sponsoring a national survey of residential renovation contracting firms. The survey of Toronto contractors is being conducted in consultation with the Toronto Home Builders' Association Renovators Council and other interested parties in government and in the housing industry in Toronto.

The purposes of this survey are as follows:

- to develop a profile of the industry to provide decisionmakers with a better general understanding of the industry and its concerns;
- to specify the problems/concerns facing the industry, establish what the effects of these problems are and ascertain the solutions being proposed by renovators;
- to determine the ability of the industry to meet the demands forecasted for residential renovation and identify possible strategies for meeting such demand;
- to identify the effects of current government policies, programs and regulations on the operation of renovation firms and find out what role renovators think government should play;
- to learn more about the employment generation capability of renovation activity; and
- to develop a better knowledge of renovator/consumer relations.

Each contractor who participates in the survey is being asked (a) to discuss with an interviewer the operation of the firm and the problems it faces in doing business and (b) to complete a written questionnaire seeking statistical information about the firm's operation.

Accordingly, would you please complete the attached questionnaire and give it to the interviewer at the time of the interview. The definitions of terms used in the written questionnaire are included in a separate section of this introduction.

The information collected from each firm in the interviews and in the written questionnaires will be kept strictly confidential. This information will be seen only by the interviewer. The report analyzing the results of the survey will present information in an aggregated form such that the readers will not be able to identify the responses of individual respondents by name.

You will receive a copy of the study which analyzes the results of the interviews and the leave questionnaires as soon as it becomes available (probably in March, 1983). It is hoped that a meeting of the respondents to this survey can be arranged to discuss the results of the study shortly after it is released.

Thank you for your interest and participation in this survey.

Definitions of Terms Used in Questionnaire

A) **Developer/Spec Renovator:** The developer purchases buildings and renovates them to his/her own specifications for the purpose of offering them for sale once the renovations have been completed.

Design Builder: The design builder working in consultation with the owner of the building determines the latter's needs and preferences and assumes overall responsibility for designing and renovating the structure and turning it over to the owner ready for use.

Project Manager: The project manager is typically hired by an owner to plan and renovate a building whose design and purpose has been clearly identified. His/her main responsibility is to ensure that all functions are co-ordinated and controlled so that the project is completed on schedule.

General Contractor: The general contractor traditionally bids to perform work already specified. The general contractor invites trade contractors to bid for specialized functions such as heating, plumbing, etc. The general contractor supervises and assumes responsibility for the work of the trade contractors.

B) Government Programs of Assistance for Residential Renovation

Residential Rehabilitation Assistance Program (RRAP)
RRAP is a program offered by the Canada Mortgage and Housing Corporation. Its purpose is to "assist in the repair and improvement of existing sub-standard housing and to provide its subsequent maintenance." "The program provides funds to repair major as well as minor deficiencies so as to substantially extend the life of these housing units" which are located in designated areas.

Canada Home Renovation Plan (CHRP)
CHRP is a program of the Canada Mortgage and Housing Corporation which offers qualified homeowners "forgivable loans to a maximum of $3,000 to cover up to 30% of the cost of repairing, altering or improving (their) homes."

Canadian Home Insulation Program (CHIP)
"CHIP is administered by Energy, Mines and Resources Canada to promote residential energy conservation." The program offers homeowners and owners of non-profit hostels taxable grants to cover the costs of purchasing and installing approved insulation materials.

Canada Oil Substitution Program (COSP)
COSP is administered by Energy, Mines and Resources Canada to promote (a) the conversion from heating oil to another energy source or (b) the improvement of conservation of energy in areas where oil heating is still preferred. Taxable grants are offered to owners of residential buildings to cover a portion of the cost of material, equipment and labour.

Ontario Home Renewal Program (OHRP)

OHRP is administered by the Ontario Ministry of Municipal Affairs and Housing and is designed to conserve and improve the existing housing stock. The program provides funding to homeowners to repair houses and to upgrade the housing stock.

C) Unit: A residential unit refers to a "structurally separate set of living quarters with a private entrace from outside or from a common hallway or stairway inside the building (eg., the entrance must not be through someone else's living quarters)." For non-residential buildings use the closest equivalent to the above.

D) Types of Units:

Repairs - "replacing broken, damaged or malfunctioning components of the home, interior or exterior (eg.,steps,plumbing fixtures,door locks,electrical components,windows,etc.)."

Maintenance - "ongoing,updating of components to retain the components in "as new" condition-does not involve the replacement of components (eg.,interior or exterior painting,caulking,cleaning and furnace maintenance,etc.)."

Additions - "additions,extensions,that require the use of land and new foundations (eg.,ground floor family room,greenhouse, room extension,garage)."

- "additions,extensions that do not require the use of land (eg.,dormers,1 storey into 2 storey,enclosing porches,recreation rooms,etc.)."

Improvements - a)"replacement of outdated housing components on a small scale,(i.e.,one room or area of the house) that are beyond repair (eg.,kitchen,bath,laundry room, new furnace,100 amp. service,new windows (a few),siding, roof,etc.,for a kitchen,new sinks,counter,etc.)."

- b)"complete removal of existing components (eg., plaster,flooring,electricity,plumbing,windows,doors, etc.) and replacement with new construction."
"could also involve extensive exterior work or both interior and exterior work."
"creating a new housing within an old house - not necessarily retaining the original character of the home (i.e.,major restoration).

- c)"rearrangement of interior spaces to accommodate changing lifestyles or needs,without destroying the complete interior of the home (eg.,old kitchen and pantry into a new modern kitchen,2 old small bedrooms into 1 large bedroom and washroom.

Conversions - "increase the number of dwelling units within a structure (eg.,single family into duplex,etc.)."

Deconversions - "decrease the number of dwelling units within a structure (eg.,duplex into single family)."

Reclamations - the changeover of non-residential buildings to residences.

Reversals - the changeover of residential buildings to non-residential purposes (eg.,commercial,institutional, industrial,etc.).

Other types of construction - engineering construction such as bridges, dams, highways, etc.

APPENDIX "A" LQ1

The Operation of Residential Renovation Contracting Firms

Firm Number__________

Leave Questionnaire

To be completed by renovation contractor and returned
in the attached addressed stamped envelope.
Please write responses in appropriate spaces provided.

1) What is the history of the firm?

- a) Year when the firm was started .... ________
- b) Year when the firm was incorporated (if applicable).. ________
- c) Year when renovation became the main activity of the firm .... ________

2) What is the ownership of the firm? (Check ✓ appropriate space).

- a) Structure?
  - i) Sole .... ________
  - ii) Partnership ...... ________
  - iii) Multi-owner ...... ________
- b) Liability structure?
  - i) Incorporated...... ________
  - ii) Unincorporated.... ________
- c) Incorporated status (if applicable)?
  - i) Private .... ________
  - ii) Public .... ________
- d) Is it Canadian owned (more than 51%)?
  - i) Yes .... ________
  - ii) No .... ________

3) What was the size of the firm in the 1981 Calendar year. (Check ✓ appropriate space).

- a) By sales volume?
  - $ 25,000 and Under ________
  - $ 25,001 - $ 50,000 ________
  - $ 50,001 - $100,000 ________
  - $100,001 - $250,000 ________
  - $250,001 - $500,000 ________
  - $500,001 - $1,000,000 ________
  - $1,000,001 and over ________
- b) By number of permanent personnel?

	Full-Time	Part-Time	Total
1-5 Persons	________	________	________
6-10 Persons	________	________	________
11-19 Persons	________	________	________
20 or more Persons	________	________	________

4) What were the occupational skills and (a) the number of permanent staff employed by the firm in the 1981 calendar year and (b) the number of personnel employed by the firm itself on the site of the average job in the 1981 calendar year?

Occupational skills (eg., foreman, secretary, estimator, carpenter)	Number of persons in each occupation employed by the firm			Number of persons in each occupation on the site of the average job		
	Full-time	Part-time	Total	Full-time	Part-Time	Total
Total						

5a) What types of units were completed by the firm in the 1981 calendar year? (Put sub-totals only in column headed "Number of units completed").

Type of Unit	Number of Units Completed	of which the following number of units were financed by				No government Programs	Number of units financed by more than one government program
		RRAP	CHIP	COSP	OHRP		
Renovation							
Residential Building							
repairs							
maintenance							
additions							
improvements							
conversions							
deconversions							
reclamations							
Sub-total							
Non-Residential Building							
repairs							
maintenance							
additions							
improvements							
conversions							
deconversions							
reversals							
Sub-Total							
Other types of construction							
Sub-Total Renovation							
New Construction							
Residential building							
Non-residential building							
Other types of construction							
Sub-total New Construction							
Total							

5b) What types of units were completed by the firm in the 1982 calendar year (until 31 October)? (Put sub-totals and totals only in column headed "Number of Units Completed")

Types of Units	Number of Units Completed	of which the following number of units were financed by CHRP
Renovation		
Residential Building		
repairs		
maintenance		
additions		
improvements		
conversions		
deconversions		
reclamations		
Sub-total		
Non-residential Building		
repairs		
maintenance		
additions		
improvements		
conversions		
deconversions		
reversals		
Sub-total		
Other types of construction		
Sub-total Renovation		
New Construction		
Residential Building		
Non-residential Building		
Other types of construction		
Sub-total New Construction		
Total		

6) Who were the main customers of the units completed by the firm in the 1981 calendar year?

Types of Units	Private Individuals	Developers	Real Estate Brokers	Landlords	Co-operatives	Other	Tota
Renovation							
Residential Building							
repairs							
maintenance							
additions							
improvements							
conversion							
deconversion							
reclamations							
Sub-total							
Non-Residential Building							
Other types of construction							
Sub-total Renovation							
New Construction							
Residential Building							
Non-residential Building							
Other types of construction							
Sub-total New Construction							
Total							

7a) What role(s) was played by the firm in work performed in the 1981 calendar year? (Write number of units in appropriate space)

Type of Role	Number of Residential Units Completed		of which the following number of residential units were financed by				
	Major Role	Supporting Role	RRAP	CHIP	COSP	OHRP	No Gov't Support
a) Developer/Spec renovator							
b) Design builder							
c) Project manager							
d) General contractor							
e) Trade contractor							
f) Other (please specify)							

7b) What role(s) was played by the firm in work performed in 1982 (until 31 October)? (Write number of units in appropriate space).

Type of Role	Number of Residential Units Completed		of which the following number of residential units were financed by CHRP
	Major Role	Supporting Role	
a) Developer/Spec renovator			
b) Design builder			
c) Project manager			
d) General contractor			
e) Trade contractor			
f) Other (please specify)			

8) Please list the names of five (5) firms in Metro Toronto engaged in renovation construction who are not members of the Toronto Home Builders' Association Renovators Council. The list of firms compiled in this manner will form basis for further surveys in the industry.

Name of Firm	Address	Telephone Number

Thank you for completing the questionnaire.

Yours sincerely,

Consultant/interviewer.

The Operation of Residential Renovation Contracting Firms

Firm Number________

Interview Schedule

A) Starting and Operating the Firm

I The Start of the Firm

1) Why was the firm started?

2) Why was renovation considered?

3) In what occupation and industry were the owners employed prior to founding this firm?

4) How was the firm started?

   a) Recruitment of

      i) Owners
      ii) Management
      iii) Staff

   b) Financing

      i) Capitalization
      ii) Working capital

5) What has been the growth pattern of the firm since inception?

   i) Sales

   ii) Personnel

6) What were the major problems (3) encountered in starting the firm?

II Maintaining the Firm in Business

1) What is the overall strategy for running the firm?

    a) What type of work is done?

        i) type of renovation
            - residential/non-residential (specify)

            - repair/renovation

            - general/specialty work

        ii) renovation/new construction

    b) What is the geographical scope of activity?

        i) geographical scope
            - local/province-wide

            - multi prov/international

        ii) location (specify municipalities)

    c) Are you engaged in any other business?

        i) what is it?

    d) What is the size of operation of the firm?

        i) small projects vs large projects

        ii) small vs large number of projects at any given time

        iii) what is the potential scale of operations? (in terms of number of projects)

        iv) what percentage of the firm's capacity was used on average in 1981?

    e) When does the firm operate?

        i) year round - full-time
                                - part-time

        ii) part year - full-time
                              - part time

2) What arrangements are made to finance the operation of the firm?

- a) Capital
  - i) long-term:
    - borrow
    - equity
    - other
  - ii) short-term:
    - borrow
    - equity
    - other
- b) Operating
  - i) long-term
  - ii) short-term

3a) Is insolvency a problem in the industry?

b) What are the usual causes of insolvency?

4) What effects does seasonality have on the operation of the firm?

- a) sales
- b) working conditions

5) What are the major problems (3) encountered in the operation of the firm?

B) The Firm on the Job

I Getting the Job

1a) Is marketing done to acquire new work?

1b) What arrangements are made?

2a) What arrangements are made for estimating the price to be charged?

2b) Do you prefer to negotiate with the buyer a set-price or cost-plus or materials + labour arrangement?

2c) Why (2b) response?

3a) What arrangements are made for specification writing and the preparation of plans?

3b) How are architects and/or designers brought into the arrangement?

4a) Are steps taken to ensure that the client is fully informed about the proposed work?

4b) What are these steps?

5a) Are guarantees offered regarding

  i) cost?

  ii) schedule?

  iii) quality?

5b) What are the guarantees?

6) Does the firm have a consumer protection bond?

7) Does the firm have adequate liability insurance?

8) Is the firm licenced as a renovator?

9a) Does the firm have a provincial business licence?

9b) What business is the licence for?

10) What are the major problems (3) faced in getting a job?

II Running the Job

1) What arrangements normally are made to finance the average project?

    a) Source(s) of financing? (specify)

    b) Requirements imposed, by main source? (specify)

    c) Format?

        i) Advance payments

        ii) Payment schedules

        iii) Cash flow

        iv) Extras and changes

    d) Conditions and financing? (specify)

    c) Cost of arrangements made? (specify)

    f) What financial costs can be passed on to the customer?

2) What arrangements are made for scheduling the job tasks for the project?

3) What arrangements are made for the acquisition of sufficient personnel to conduct the project?

a) Procedures for staffing

b) Preferred characteristics and qualifications

c) Size of resource pool

d) Availability and reasons for fluctuations

e) Variable vs fixed cost approaches

f) Use of sub-contracting as substitute for hiring staff

g) Usual payment period for sub-trades

h) Arrangements for training of staff

4a) What training or educational programs would your firm's personnel like to take to improve their on-the-job performance?

4b) What training or educational programs would you like(a) your employees to take to improve on-the-job performance or (b) the industry?

4c) Are such programs currently available?

4d) If not, who should offer the programs?

5) What effects do labour relations have on running the job?

6a) Are problems encountered in using sub-trades?

6b) If yes, what are they?

7) What arrangements are made for the acquisition of materials for the project?

   a) normal sources

      - dealer/distributor

      - manufacturer

   b) availability;
      if poor, for what types of materials

   c) delivery times

   d) discounting procedures (quantity vs price)

   e) usual payment period

8) What are the usual physical steps undertaken in running the average job? (eg., gutting, finishing).

9) How long does it take to complete the average job (on basis of 40 hr. week)?

10a) Are procedures implemented to control quality of workmanship?

10b) What are the procedures?

11a) Are steps taken to promote productivity on the job?

11b) What are these steps?

12a) Are arrangements made to foster good contractor-customer relations?

12b) What are these arrangements?

13) Do government policies, programs, and regulations cause your firm difficulty in running the job?

14) What are they?

- a) Policies: (specify)
- b) Programs:
  - i) RRAP
  - ii) CHRP
  - iii) CHIP
  - iv) COSP
  - v) OHRP
- c) Regulations:
  - i) building codes
  - ii) zoning
  - iii) metrication

15) (If yes for 13)
What aspects of programs or regulations cause the difficulty (specify program or regulation)?

- i) standards or programs themselves
- ii) procedures
- iii) interpretation by officials

16) What are the normal steps taken to meet the requirements specified in government programs or regulations:

a) Programs:

i) RRAP

ii) CHRP

iii) CHIP

iv) COSP

v) OHRP

b) Regulations:

i) building codes

ii) zoning

17) Should the governments play a role in residential renovation?

18) What roles should be played by?

a) Federal - CMHC

b) Provincial - Ont. Mun. Aff. & Housing

c) Municipal (codes & zoning)

19) Can better communications be established between renovators and government?

20) How can this be done?

a) Federal

b) Provincial

c) Municipal

21) Can government policies, programs, and regulations be better geared to accommodate the needs of the renovators?

22) How can this be done?

    a) Policies;
    b) Programs:
        i) RRAP
        ii) CHRP
        iii) CHIP
        iv) COSP
        v) OHRP
    c) Regulations:
        i) building codes
        ii) zoning

23) Could an organization of renovators foster the development of the industry?

24) What roles could such an organization play?

25) What are the major problems (3) usually encountered in running a job?

III Completing the Job

1) What are the major problems (3) encountered when completing a job?

APPENDIX "B"
SUPPLEMENTAL

a) Is planning in general done by the firm?
If yes,

b) In what areas of the firm's operations is planning done?

   i) marketing

   ii) financial

   iii) personnel

   iv) organizational

   v) work activity

c) Over what time-frame is planning conducted?

   i) short (under 1 year)

   ii) medium (1-3 years)

   iii) long (4 or more years)

d) Who does the planning?

   i) owners

   ii) owners/management

e) How important is this planning activity considered to be in the operation of the firm?

   i) little

   ii) moderate

   iii) great

f) How have the plans compared with actual events?

   i) little

   ii) moderate

   iii) great